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# Japan Report

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16 August 1985

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POLITICAL AND SOCIOLOGICAL

FRENCH DAILY INTERVIEWS JAPAN'S NAKASONE

PM151034 Paris LE FIGARO in French 11 Jul 85 p 18

[Interview with Japanese Prime Minister Yasuhiro Nakasone by Jean Francois-Poncet in Tokyo--date not given]

[Text] Question: What place does Europe have in your concern?

Answer: Japan attaches great importance to trilateral cooperation between itself, Europe, and the United States to open up an era of cooperation between the Pacific and the Atlantic. After the last world war our country decided not to become a military power again, and it was in the framework of the security system linking it with the United States that it strove to guarantee peace and its own defense. Relations with the United States are, therefore, vital to our security. They are also very close at the economic level. In addition, being situated in Asia, Japan considers that its stability and prosperity are inseparable from those of the countries in the Asia-Pacific region.

Basic Values Came From Europe

But this does not mean that Japan attaches less importance to its relations with the West European countries. On the contrary, when we look at history we observe that Western Europe was the source of the basic values, like democracy, the market economy, and free trade, on which Japan is based, and our country has learned a great deal from the long European cultural tradition. In particular the ideal of the "gentleman" which emerged during Western Europe's history is an extremely important model for us at a time when science and technology, although created by man, are likely to lead him in unexpected directions.

Question: Does this mean that Japan regards Europe as a kind of rather old-fashioned cultural "conservatoire?"

Answer: Not at all. Contemporary Western Europe plays an important role in world politics and the world economy. In addition the security of all the industrial democracies is both vital and indivisible. This is why I have always called for close cooperation between Japan, the United States, and Europe and, in a broader sense, between the Asia-Pacific region and the Atlantic region.

### Considerable Military Potential

Question: The Japanese military budget will probably exceed the symbolic threshold of 1 percent of GNP for the first time this year. This is still much lower than the European figure (4 percent) and the American figure (7 percent). Can we expect an increase in the Japanese contribution to the industrial democracies' security? Is Japan not being irrevocably pushed toward a wider role in arms production and hence defense because of its technological progress?

Answer: Our country has independently equipped itself with a self-defense capability. It is doing so in the harmonious and efficient framework of the Japanese-American security system and with respect for our fundamental policy in the defense sphere. As our constitution stipulates, this policy is aimed at keeping our potential purely defensive so that it cannot pose a military threat to neighboring countries. But, since our country's GNP is high, our defense capability is a considerable potential.

If Japan rashly increased this potential it would again provoke misunderstandings and distrust among its neighbors. In addition Japanese opinion would be divided. Trilateral cooperation between Japan, the United States, and Europe and the alliance with the United States in the framework of the treaty of security are element which reassure the Japanese public and the Asian countries close to Japan.

In addition Japan makes a major contribution to world peace by the relations of friendship and cooperation it is maintaining and developing with South Korea, China, and the ASEAN countries. [Answer ends]

It is easy to understand why Mr Nakasone refrained from answering the question on Japan's role in the application of advanced technologies to the military sector. The subject is sensitive since it brings Japan into a sphere which is at the center of tension between the United States and the USSR. Japan has pledged to transfer to the United States the results of its civilian research which are of military importance. During a recent visit to Washington Mr Nakasone also gave his country's support to and promised its participation in President Reagan's strategic defense initiative. But since then Japanese leadership circles have become aware of the reservations which the American plans are arousing in Europe and the vehement opposition they are encountering in Moscow. Caution and discretion immediately became the rule.

The prime minister more readily discusses his country's economic performance. It is an exceptional performance of which his fellow citizens are justifiably proud. People from all countries are now turning toward Japan to learn about methods of management and organization.

Question: Does Japan feel it is a model? Can this model be imitated?

### A Model

Answer: People sometimes explain our results by the spirit and traditions of Confucianism and Buddhism which stress order and responsibility. In fact these characteristics are not peculiar to Japan. They are universal. We therefore do not regard ourselves as a "model." Moreover I note that Japanese enterprises installed in France have established a good climate of social relations, respecting their staff's spirit of initiative.

However, there are original qualities in "Japanese-style" management. One of them lies in the importance attached to the enterprise's social responsibility, in addition to its accountability to its shareholders. Compared with Europe and the United States, we also observe greater boldness in technical innovation, the improvement of productivity, and workers' participation in management. Finally, there is no doubt that social consultation is particularly highly developed thanks to the system of "management councils" which bring together employers and trade unions. But examples of the same methods could of course be found in Western Europe.

### As Open as Other Countries

Question: The United States and Europe have the feeling that it is very difficult for their products to penetrate the Japanese market. Some weeks ago you personally intervened with a television address in which you urged your fellow countrymen to buy more foreign products. Do you believe your appeal will be heeded?

Answer: I wonder whether the idea that the Japanese market is closed is not one of the preconceptions that foreigners have about Japan. One should not talk in terms of the "closed" character of our market when the necessary efforts to penetrate it are not being made. There are numerous European and U.S. companies (Air Liquide, Coca Cola, Max Factor, IBM, NCR, Nestle, Bayer, and so forth) which are succeeding excellently in Japan because they have long realized the importance of our market and have done what was necessary to establish themselves solidly there.

On frequent occasions Japan has taken measures to open up its market. Its market is now as open as those of other countries to both capital and goods. For instance, Japanese customs duties are now among the lowest in the world.

But I find it perfectly understandable. In view of the large surplus in our current balance of payments, that our partners are insistently demanding a further opening up of our market. And I personally am doing my best to promote imports of foreign products to Japan. The appeal I issued on television on 9 April was received with great interest by the public and prompted, both among individuals and among enterprises, a growing trend toward increased purchases of foreign products and equipment.

Question: Unless I am mistaken you mean the Europeans and Americans would do better to blame themselves and the inadequacy and inappropriateness of their efforts to penetrate the Japanese market.

Answer: It is by developing trade and industrial cooperation, by examining situations unfamiliar to them, and by becoming integrated into "heterogeneous" spheres that Japanese businessmen succeed in their expansion. If the French are really determined to make a greater effort to understand our language, culture, and society, I am sure they will obtain better results in our market. As I have just said, there are a large number of European and U.S. companies that have become successfully established in Japan. It all depends on the competitiveness and quality of products, on the promotional effort, and on after-sales services, which are very important in Japan.

Question: Will it be possible some day to invest in Japan or to purchase an enterprise there with the same facility as is granted to Japanese firms in the United States or even Europe?

Answer: In a liberal economy direct investments, whether domestic or foreign, are in theory dependent only on the discretion of the enterprises themselves. In this regard the Japanese Government has taken several measures to permit a normal increase in foreign investments. Now foreign enterprises invest as easily in Japan as in Europe or the United States. As far as legislation is concerned, the exchange law revised in December 1980 in accordance with OECD regulations has substituted a system of declaration for that of authorization. Consequently direct investments and even purchases of enterprises were deregulated in both directions, apart from in four sectors--agriculture, forestry, and fishing; oil; mining; and leather and leather goods. [Answer ends]

Mr Nakasone's explanations reflect a sincere conviction and Japan's real efforts, chiefly under U.S. pressure, to open up its market--efforts from which it would be rash to expect too many results, however. It is not tariff or legislative barriers that make the Japanese market difficult to penetrate but the spontaneous reactions, the "cultural" response, of the Japanese administration, business world, and public.

In any case the complaint about Japanese "protectionism" is being overcome. The essential point is Japan's steadily increasing strength on the world economic scene. Having been first in postwar rebuilding and growth, it is now first in the preparation of a postindustrial society. It is Japan which holds the trump cards: enterprises whose profit margins exceed all records; universities which train the largest number of engineers; a national will entirely directed toward the development of research and new technologies. Nothing reflects this will better than the Tsukuba science exhibition.

Question: Franco-Japanese economic relations are underdeveloped. What initiatives could alter this situation? How do you view the future of these relations?

Answer: I hope that your country will manage to benefit from the opening up of our market by increasing its exports to Japan.

In this connection the "Tokyo 1984" exhibition, for instance, held last October to display French products and which I visited myself, was a great success. This year a similar event will be held in Osaka, and we are determined to contribute our utmost to its success.

France's export effort will continue to be of prime importance in ensuring the development of Japanese-French trade relations. The Japanese Government will support it as far as possible. We have just reduced customs duty on wines and eliminated it on telecommunications equipment. We also envisage public purchases of helicopters. Japanese industrial investments in France have increased from 6 [units not specified] at the end of 1981 to 27 now.

As far as the future is concerned, I would remind you of what I said just now about relations with Western Europe. The strengthening of Japanese-European relations is one of the mainstays of our foreign policy, and France is at the center of Europe. I am keen to emphasize that since President Mitterrand's official visit to Japan in April 1982--the first by a French head of state--Japanese-French relations have been intensified in all fields.

I hope with all my heart that my coming visit to France will--looking ahead to the 21st century--further strengthen Japanese-French relations, which received a major boost from President Mitterrand's visit.

Question: In your opinion, what are the two or three key problems on which the world's future depends?

Answer: I believe there are many problems in today's world--economic, political, North-South relations; they all govern the stability and prosperity of tomorrow's world.

However, the maintenance of peace, disarmament, and particularly progress in nuclear disarmament are the major source of concern to mankind as a whole. Japan was the victim of the military use of the atom. It is determined to make its own contribution to the solution of this fundamental problem.

In the international economic context the most pressing necessity is to guarantee stable, noninflationary growth and to defend the system of free trade. It is this belief which prompts me to urge the early opening of multilateral trade negotiations.

But I am also convinced that there can be no prosperity for the North without prosperity for the South. There will be no stability and prosperity for the world unless the whole of mankind enjoys it. From this viewpoint the settlement of the North-South problem constitutes one of the most important issues facing the world today. Japan is in third place among OECD countries with regard to aid to developing countries and we will continue this effort to the limit of our capabilities.

CSO: 4100/646

POLITICAL AND SOCIOLOGICAL

JAPANESE DELEGATE ADDRESSES UN WOMEN'S MEETING

OW170405 Tokyo KYODO in English 0240 GMT 17 Jul 85

[Text] Nairobi, 16 Jul (KYODO)—In an address to the UN Decade for Women Conference in Nairobi Tuesday, the head of the Japanese delegation declared "the day when mountains move has come at last."

Mayumi Moriyama, parliamentary vice minister for foreign affairs and one of Japan's top-ranking women officials, praised the women's decade as a catalyst which has "stirred slumbering mountains" and given impetus to the women's equal rights movement.

She also denounced South Africa's "extremely deplorable" apartheid policy, which "violates the fundamental human rights and freedoms of women and children in particular."

Outlining progress in elevating the status of Japanese women since the 1975 International Women's Year Conference in Mexico City, Moriyama put emphasis on the recent approval of the convention to eliminate all forms of discrimination against women. "I believe that the ratification of the convention is a symbolic event in our history of the advancement of the status of women."

Moreover, she added that an official panel to coordinate women's rights policies had been formed under the prime minister's office, Japan's third woman cabinet minister appointed and the list of female ambassadors and ministers somewhat lengthened.

According to the vice minister, social consciousness of the role of Japanese women is also undergoing a transformation. Quoting a recent opinion poll, Moriyama said that the number of women who feel their place is in the home has decreased by 15 percentage points in the past 10 years. Moreover, the number of men who say they want their wives to quit work upon marriage has fallen from over 25 percent to about 14 percent over the same period.

In her report, Moriyama said that Japan has contributed a total of some \$1.9 million to the voluntary fund for the UN Decade for Women, with another \$300,000 slated for the fiscal 1985 donation.

In addition, Japan trains about 500 women from developing nations in public administration and home living improvement as part of its bilateral cooperation program.

Moriyama also voiced support for "forward-looking strategies to the year 2000," one of the major tasks scheduled for the Nairobi meeting.

Calling for strategies that will have "a concrete and action-orientated content," she emphasized three points for recommendation:

--An increase in the number of countries which have ratified the convention on women's discrimination.

--Regular meetings with UN member nations to review "forward-looking strategies" achievements.

--Development of a data and research base on women in collaboration with relevant agencies.

The inter-governmental UN conference, scheduled to run until 26 July, opened Monday with some 3,000 delegates and an estimated 11,000 observers taking part.

Although initial disagreement in conference rules and voting policy threatened to disrupt the meeting, a "concession" was announced Monday.

The U.S. delegation, in an attempt to block domination of the Third World in conference discussions, had insisted on unanimous approval of the final report by all delegates, which would have given the United States veto power. But after weekend discussions, a concession was announced striking a balance between consensus and majority voting.

The Japanese delegation, including 13 women Diet members, will take part in discussions reviewing and appraising the accomplishments of the women's decade.

CSO: 4100/646

POLITICAL AND SOCIOLOGICAL

ABE LEAVES BANGKOK FOR JORDAN ON MIDEAST TOUR

OW150921 Tokyo KYODO in English 0821 GMT 15 Jul 85

[Text] Bangkok, 15 Jul (KYODO)--Japanese Foreign Minister Shintaro Abe left here Monday for Jordan on a Mideast tour which will also take him to Syria and Saudi Arabia. Abe was in Bangkok after attending a foreign ministers' conference of the member states of the Association of Southeast Asian Nations (ASEAN) and five other countries held last weekend in Kuala Lumpur.

Japanese officials accompanying Abe said his Mideast visit is aimed at exploring the role Japan could play in fostering a climate conducive to peace in the region and a cease-fire in the Iran-Iraq war.

Abe's visit will be highlighted by his meeting there with Yasir 'Arafat, leader of the Palestine Liberation Organization (PLO), scheduled for Tuesday. It will be the first meeting between 'Arafat and a senior Japanese official since the PLO chief came to Japan in October 1981.

Aside from discussions on the Mideast peace, Abe is expected to convey Tokyo's readiness to extend assistance to Palestinians through the United Nations Relief and Works Agency (UNRWA).

In his talks with Foreign Minister Tahir Al-Masri and other Jordanian officials, Abe is expected to express Japan's support for King Husayn's initiative in peace efforts.

After a 3-day stay in Jordan, Abe is to go to Syria Wednesday and hold talks with President Hafiz Al-Asad and Foreign Minister Faruq Al-Shar'. Abe is expected to urge Syria to participate in the peace process, as Japan views Syria as one of the Arab hardline nations and thus any peace process. [Graf as received]

During his 3-day visit to Saudi Arabia starting 19 July, Abe is to talk with Saudi leaders, chiefly on how to bring about a settlement of the Gulf war, according to the officials.

CSO: 4100/646

POLITICAL AND SOCIOLOGICAL

**ABE HOLDS TALKS WITH THAILAND'S SITTHI**

OW151335 Tokyo KYODO in English 0943 GMT 15 Jul 85

[Text] Bangkok, 15 Jul (KYODO)--Thai Foreign Minister Sitthi Sawetsila thanked Japan Monday for cutting tariffs on boned chicken and urged further efforts to cut tariffs on unboned chicken when he met with his Japanese counterpart Shintaro Abe in Bangkok, according to officials who attended the meeting.

Abe met Sitthi on his way to the Middle East after attending the expanded foreign ministers' meeting of the Association of Southeast Asian Nations (ASEAN), held in Kuala Lumpur last week.

Abe said Japan and China will discuss the Kampuchean issue at a forthcoming ministerial meeting between the two and he will inform Thailand of the details if anything significant results.

Abe was commenting on a reference by Sitthi to reports that China intends to "put pressure" on Vietnamese troops along the China-Vietnamese border in the belief that the Kampuchean issue cannot be resolved without putting pressure on Vietnam, according to the officials.

Sitthi told Abe that it is Thailand's understanding that Vietnam has failed to obtain sufficient aid from the Soviet Union in recent negotiations with Moscow, officials said.

In addition to discussing the Kampuchean issue, Abe promised that Japan will fully consult with Thailand on how to proceed with a program to give occupational training to Kampuchean refugees.

Japan suggested a new phase of the training program during the expanded foreign ministers' meeting of ASEAN.

CSO: 4100/646

POLITICAL AND SOCIOLOGICAL

SENIOR USSR OFFICIAL SAYS SHEVARDNADZE TO VISIT

OW131129 Tokyo KYODO in English 1014 GMT 13 Jul 85

[Text] Tokyo, 13 Jul (KYODO)--It is only a matter of time before newly-appointed Soviet Foreign Minister Eduard Shevardnadze will make a visit to Japan, a senior Soviet official said Saturday.

Ivan Kovalenko, deputy chairman of the Soviet Communist Party's International Department, told KYODO News Service in an interview that Shevardnadze could meet Japanese Foreign Minister Shintaro Abe for the first time at the UN General Assembly this fall.

He said Shevardnadze, who replaced Andrey Gromyko as foreign minister earlier this month, will come to Japan "sooner or later."

Kovalenko, however, stopped short of giving a specific date of when Shevardnadze will pay a visit to Japan.

Kovalenko, who is the top Soviet party official in charge of Japanese ties, is currently visiting Japan at the invitation of the Japan Communist Party.

When Prime Minister Yasuhiro Nakasone travelled to Moscow earlier this year for the funeral of party chief Konstantin Chernenko, new Soviet leader Mikhail Gorbachev agreed to send Gromyko, then Soviet foreign minister, to visit Japan.

Kovalenko noted that Soviet-Japanese ties have shown gradual improvement and said high-level diplomatic contacts would be effective in resolving pending issues between the two countries.

He also said the Soviet Government is currently studying the draft of a bilateral cultural agreement which Japan presented to Moscow last June.

CSO: 4100/646

POLITICAL AND SOCIOLOGICAL

INTERVIEW WITH SOVIET OFFICIAL KOVALENKO

OW190921 Tokyo NHK Television Network in Japanese 1200 GMT 18 Jul 85

[Interview with Ivan Ivanovich Kovalenko, deputy chief of the International Department of the CPSU Central Committee, currently visiting Japan, by NHK Foreign News Department reporter Iida--recorded; time and place of interview not given; interview conducted in Russian with Japanese translation provided in subtitles; the following text is from the Russian]

[Text] [Iida] Recently, Mr Gorbachev became the new general secretary of the CPSU Central Committee. I would like to ask about him, and first of all, have you met him personally?

[Kovalenko] I have met Comrade Gorbachev many times. He is really a very capable and wise state leader who has enormous experience in party management. He is an extremely erudite, well-educated, and dynamic person who is very interested in the Soviet Union's foreign policy; he is exerting tremendous efforts to ease international tensions, improve the general political climate in the world, and improve relations with all states, particularly big powers, including Japan. Therefore, I believe that our foreign policy under the new general secretary will further develop with new impetus, and his activities in this field will bring great benefit not only to our people but to the peoples of the whole world as well.

[Iida] Does this mean that in the future, the influence of Mr Gromyko in the conduct of Soviet foreign policy...[Kovalenko interrupts]

[Kovalenko] It will remain.

[Iida] Will remain?

[Kovalenko] Our foreign policy is not worked out by one individual; it is done collectively. The Politburo and the Central Committee are collective organs, and our foreign policy line is worked out collectively. I think Mr Shevardnadze is the right person; he is capable of dynamically and energetically fulfilling the party's foreign policy line. He is a relatively young political figure who has undertaken extensive party and state work. He also has a cheerful disposition, a sense of humor, and an

open personality, easily making friends: he is sociable, has good orientation and strong character, and will be able to see any initiated task through to the end.

[Iida] As you already know, the Japanese Government has invited Mr Gromyko as well as Mr Shevardnadze to visit Japan. In your opinion, who will be able to visit Japan first?

[Kovalenko] This is a difficult question. As you know, many important meetings and talks have already been placed on the agenda. You probably know that Mr Gorbachev, probably with Mr Shevardnadze, will go to France for a meeting with President Mitterrand in October. Then, a meeting with U.S. President Reagan is planned. Therefore, it is difficult to say now when Mr Shevardnadze or Mr Gromyko will visit Japan. But both know what Japan represents; both attach great significance to Soviet-Japanese relations; and at a time suitable for them and for the Japanese side, one of them will, of course, visit Japan. This is my profound conviction.

[Iida] It seems the prospect for their visit this year is bleak.

[Kovalenko] Well, this year, possibly it would be difficult.

[Iida] Very difficult?

[Kovalenko] Simply, the fact they have other obligations will probably not allow them to do so this year. This is my personal opinion.

CSO: 4100/646

POLITICAL AND SOCIOLOGICAL

BRIEFS

TAKEIRI HOPES TO MEET DENG XIAOPING--Tokyo, 18 Jul (KYODO)--Komeito leader Yoshikatsu Takeiri said Thursday he had no idea of acting as an intermediary between China and South Korea during his visit to the two countries starting later this month. The leader of Japan's No 2 opposition party, however, said he would discuss with Chinese officials about the Korean peninsula. In Seoul, Takeiri said, he would discuss inter-Korean relations. Takeiri will visit South Korea and China, which has no diplomatic ties, [as received] between 22 July and 5 August. He said he welcomed a resumption of dialogue between North and South Korea. Takeiri said he would meet President Chon Tu-hwan and National Assembly Speaker Yi Chae-hyong in Seoul. In Beijing, Takeiri hopes to meet Supreme Leader Deng Xiaoping, Communist Party Leader Hu Yaobang and Premier Zhao Ziyang, he said. [Text] [Tokyo KYODO in English 1030 GMT 18 Jul 85]

SHIN KANEMARU URGES FURTHER REFORMS--Also, Kanemaru suggested that Prime Minister Yasuhiro Nakasone should step down from office after his second 2-year term as LDP president ends in November next year. Kanemaru said Nakasone should let "a younger generation" take up the torch, a reference to the so-called new leaders who are aspiring to the prime ministership. The LDP commands a broad majority in the Diet and the party leader automatically assumes the prime minister's office. Kanemaru's remarks came amid suggestions within the ruling party that the term of the LDP presidency be extended from the current 2 years to 3 years. Kanemaru, however, said it was up to party members to revise party rules if they want Nakasone to remain in office. Currently, LDP rules allow a maximum of two consecutive, 2-year terms for the party presidency, and a revision would require approval by two-thirds of the party's members. [Text] [Tokyo KYODO in English 0913 GMT 12 Jul 85]

TRADE UNION COUNCIL OPENS CONVENTION--Tokyo, 15 Jul (KYODO)--The chairman of Sohyo, Japan's largest labor organization, called Monday for all-out opposition to the division of the deficit-ridden Japanese National Railways (JNR). Takeshi Kurokawa made the appeal in his opening speech to the 73rd regular convention of Sohyo, the General Council of Trade Unions. Kurokawa said a move to split up and transfer the JNR to private ownership is aimed at breaking up the JNR's labor unions, which play an important role in his organization. He thus positioned the defense of the labor unions--the 247,000-member National Railway Workers' Union (Kokuro) and

47,000-member National Railway Motive Power Union (Doro)--in the struggle for JNR reconstructions, saying union jobs must be protected, as well as the transportation system as a whole, which he called the "feet" of the nation. [Text] [Tokyo KYODO in English 0233 GMT 15 Jul 85]

CLUB OF 'SENSIBLE GOVERNMENTS'--Tokyo, 15 Jul (KYODO)--An undersecretary general of the United Nations, Brian Urquhart of Britain, proposed Monday the creation of a club of sensible governments like Japan to facilitate political contributions to world peace. Urquhart also stressed in a meeting with Vice Foreign Minister Kensuke Yanagiya that the UN Security Council and the UN Secretary General's Office should be strengthened to help prevent an accidental outbreak of nuclear war and promote global peace. Urquhart said the proposal for such a club was his personal idea, and that it should include Japan, Canada, northern European countries and other medium-powered countries, Foreign Ministry officials said. The officials said Urquhart, now on an official visit here, made the remarks after Yanagiya told him of the strong emphasis that Japan has placed on the UN's peace-keeping roles. Urquhart said the New York-based world body has to have the authority to act timely to maintain global peace and plans to use the opportunity of its 40th anniversary this fall to draw attention to this harsh reality. [Text] [Tokyo KYODO in English 0943 GMT 15 Jul 85]

OFFICIALS WELCOME STRONGER YEN--Tokyo, 16 Jul (KYODO)--Japanese Government officials Tuesday hailed the yen's sharp appreciation against the U.S. dollar, saying the yen's value reflects the strength of the Japanese economy. The yen shot up to a 13-month high of 235.20 yen on the Tokyo foreign exchange market Tuesday morning before closing the morning session at 237.65 yen against 238.60 yen at Monday's finish. State Minister Toshio Komoto deputizing for Prime Minister Yasuhiro Nakasone who is in Europe, told a press conference that the yen had moved in the right direction as its weakness has been underlying Japan's friction with its trading partners. Finance Minister Noboru Takeshita told reporters that the exchange rate shows that Japan's economic "fundamentals" are being better evaluated. Komoto attributed the yen's strength to a fall in U.S. interest rates and a slight slow-down in U.S. economic growth. He said the yen's rate will head in a better direction as Japan's economy becomes less dependent on exports with the promotion of domestic demand. Japan will make further efforts to expand domestic demand after it announces a scheduled market-opening action program on 30 July. [Text] [Tokyo KYODO in English 0532 GMT 16 Jul 85]

'SURPRISE' OVER REAGAN'S CANCER--Tokyo, 16 Jul (KYODO)--A Japanese cabinet spokesman said Tuesday that while President Ronald Reagan's cancer diagnosis comes as a "surprise," the government was pleased that the operation was a success. Chief Cabinet Secretary Takao Fujinami, meeting with reporters following the announcement of Reagan's condition Monday, expressed hope for elimination of the cancer which was removed from Reagan's bowel in an operation Saturday. Doctors at the National Cancer Institute in

Washington announced that there was a good chance that the tumor had been confined and would not spread, although they did not rule out a recurrence in the future. Fujinami added that Reagan's recovery was an important factor in the scheduled summit of the United States and the Soviet Union in November. [Text] [Tokyo KYODO in English 0306 GMT 16 Jul 85]

DIET DELEGATION TO MEET DENG XIAOPING--Tokyo, 4 Jul (KYODO)--Mutsuo Kimura, president of the House of Councillors, will lead a non-partisan mission of the Upper House, which will visit China for 8 days starting 19 July. Kimura's scheduled Chinese visit is in response to an invitation by his Chinese counterpart, Peng Zhen, chairman of the Standing Committee of the National People's Congress. Other members of the mission are the chairmen of the Diet steering committees of the Liberal-Democratic, Komeito, Japan Communist, and Democratic Socialist parties, as well as the former chairman of the Japan Socialist Party's Diet steering committee. Kimura and his party will hold talks with Deng Xiaoping and other Chinese leaders. [Text] [Tokyo KYODO in English 0912 GMT 4 Jul 85]

CSO: 4100/646

MILITARY

DEFENSE PROGRAM DECISION EXPECTED IN AUGUST

OW061251 Tokyo KYODO in English 1246 GMT 6 Jul 85

[Text] Tokyo, 6 Jul (KYODO)--The government has decided to approve the next five-year defense buildup program by the end of August, official sources said Saturday.

The sources said the program, starting in fiscal 1986, will be approved at the National Defense Council before the Defense Agency comes up with a budgetary request for the initial year of the program.

The decision is in line with U.S. calls for the steady implementation of defense buildups by Japan they said.

Total expenditure during the five-year period of the next buildup program is expected to reach about 20 trillion yen, exceeding 1 percent of the nation's estimated gross national product (GNP) for the same period. The government has been adhering to a policy of limiting defense spending to less than 1 percent of GNP.

Its decision to approve the defense program before a budgetary request by the Defense Agency is intended to avoid controversy over the appropriation for the defense buildup.

Koichi Kato, director-general of the Defense Agency, also pledged to U.S. Defense Secretary Casper Weinberger that the government will decide on the next program this summer when the two met in Washington recently.

Prime Minister Yasuhiro Nakasone conferred with Shin Kanemaru, secretary-general of the ruling Liberal-Democratic Party, over the issue Thursday, informed sources said.

Nakasone personally decided to approve the program before he leaves on a European tour in September.

Government sources said the cost of the next defense buildup program is at present only an estimate and can be dealt with separately from the 1 percent ceiling. There is a possibility that the nation's GNP will grow faster than the government's estimate, they said.

CSO: 4100/645

MILITARY

POLL SHOWS PEOPLE THINK DEFENSE 'ADEQUATE'

OW071037 Tokyo KYODO in English 1031 GMT 7 Jul 85

[Text] Tokyo, 7 Jul (KYODO)--The majority of the Japanese people consider Japan's present defense capabilities to be adequate, and do not seek a further buildup, it was revealed Sunday in a recent public opinion survey.

The survey was conducted last November by the prime minister's office. This is the eighth of a series of such polls conducted at intervals of 2 to 3 years since 1965. A questionnaire was sent to 3,000 Japanese adults, both male and female, 81 percent of whom replied.

According to the prime minister's office, a little more than eight out of every 10 people polled recognized the necessity for the self-defense forces.

Whereas slightly over seven out of every 10 respondents admitted that the Japan-U.S. security treaty has contributed to the peace and security of Japan, about the same number of people voiced their objections to an increase in the defense budget, the office said.

This result drew attention as it was considered certain that defense spending in fiscal 1985 would top 1 percent of Japan's gross national product for the year--the long-observed 1 percent defense budget framework.

Asked about the appropriate size of defense spending, 54 percent--the highest percentage yet--replied that the present budget is sufficient.

A further 18 percent favored a smaller budget, making a total of 72 percent who wished for no increase in defense spending.

Only 14 percent favored an increase in the budget, down from 20 percent recorded in the previous survey.

About 60 percent favored the present size of the self-defense forces. About 10 percent sought a smaller size, and 10-20 percent a larger one.

Seventy-one percent said the Japan-U.S. security treaty has contributed to Japan's peace and security, whereas only 10 percent replied that the pact has made no contribution. Sixty-nine percent asserted that Japan's security should be maintained by means of the Japan-U.S. security system and the self-defense forces. This percentage was the highest so far.

Eighty-three percent said the self-defense forces should be maintained. In the previous survey, too, a little more than 80 percent gave the same reply.

Sixty-four percent of those supporting the existence of the forces said they would be needed to maintain the security of the nation, and 45 percent stressed the necessity to have the forces in case of natural disaster.

Only 8 percent said it is advisable that Japan have no self-defense forces. Forty-three percent of this group reasoned that the existence of the forces could involve in a war, and 40 percent that the constitution has a "no war" clause.

CSO: 4100/645

MILITARY

BRIEFS

DESTROYERS TO RIMPAC-86 EXERCISES--Tokyo, 9 Jul (KYODO)--Japanese Maritime Self-Defense Force will send their largest team so far to take part in the RIMPAC '86 joint military exercises with the United States, Canada, Australia and New Zealand next spring, Chief of Staff Manabu Yoshida said Tuesday. Japan participated in the semi-annual joint drill in the Pacific for the first time in 1980 with two destroyers and eight P-2J anti-submarine patrol planes, and has enlarged its team each year since then. It is expected that eight destroyers of the latest model and the newly-introduced P-3C planes will be dispatched to the drill for 1986. A formal decision on participation will be made after the approval of the defense budget for the fiscal 1986. [Text] [Tokyo KYODO in English 0952 GMT 9 Jul 85]

CSO: 4100/645

ECONOMIC

EXTERNAL ECONOMIC POLICY ANALYZED

Tokyo ESP in Japanese May 85 pp 69-77

[Article by Noboru Nishifuji, coordination branch chief, EPA Coordination Bureau]

[Text] Economic friction surrounding Japan is growing noticeably against the backdrop of a Japanese trade surplus surpassing that of Saudi Arabia immediately after the second oil crisis and, on the other hand, loud complaints about the inaccessibility of the Japanese market. Continuation of the current condition may provoke, it is feared, worldwide protectionism and anti-Japanese sentiment. Further, there is even concern that a catastrophe may occur in the international economic order of which the main axis is the free trade system.

In view of these circumstances, the following subjects are treated in this essay:

1. Why does economic friction occur?
2. Will economic friction continue?

Then, based upon the results obtained, the following will be discussed:

3. Have external economic policies up to now been effective?
4. Is there a wonder drug to eliminate the economic friction?
1. Why Does Economic Friction Occur?

The following are thought to be four major causes of economic friction.

(1) Expansion of Trade Imbalance

Clearly, expansion of the trade imbalance has formed the background of the intensified economic friction. Japan's current accounts have shown a surplus since about 1965. Since then until now, there have been three times when Japan's ordinary surplus exceeded 1 percent of the GNP, and the intensive economic friction arose during each of these periods (refer to the separate chart).

When the first incident occurred about 1971, textiles were the specific item in trouble, while during the second incident of 1976-78 iron and steel and color TV's were the main problems. The current problems which began in 1981 have expanded friction over a wide range of areas beginning with passenger vehicles and VTR's, and including electric communications, software and financial and capital markets. It is understood that the government worked out external economic policies to cope promptly with friction during each of these periods. (Particularly, the government announced policies seven times during the 4 years since 1981. Refer to attached Table 1.)

Meanwhile, it is a fact, in addition to the expanded breadth of the ordinary surplus, that the local rainstorm type or a laser beam type export practice has fanned flames of the economic friction. This laser beam type export practice, that is, initiating a dramatic increase of exports concentrated on a small number of sectors, will, as a result, increase unemployment in trade partner nations and weaken their strategic industries such as automobiles (America) and electronics (EC). It is just like the phenomenon of rapidly inflicting localized damage by laser beams. This practice, however, will increase the potential crisis of the targeted industries and at the same time feed a rapid growth of criticism against Japan.

#### (2) Persisting Complaint of a Closed Market

Seeds of friction are found in the closed market manipulated by tariffs, import quotas and all types of nontariff barriers (especially, the import inspection procedure, the standards/validation systems, the marketing structure and business practices). As will be discussed later, these points have been considerably improved, but, as before, dissatisfaction is still strong in regard to the complexity, special nature and opacity of import inspection procedures and specifications/standards.

#### (3) Small Nation's Logic Does Not Conform to Expectations of a Great Nation

Despite the fact that Japan earns the world's largest trade surplus and is the world's largest supplier of capital, Japan is often criticized for not sharing the responsibilities and costs to maintain international security and the free trade system. Foreign nations claim: "We understand that Japanese defense spending is inevitably small due to the constitutional restrictions. However, Japan's economic aid programs are also extremely inadequate. For instance, it ranks 13th among the 17 DAC members in terms of the ratio of Official Development Aid (ODA) to the GNP. Reviewing the quality of the ODA in grant elements, Japan is at the bottom except for Australia. Also, Japan's industrial regulation is inadequate as is seen in its generous protection of agriculture and declining industries while it enjoys the maximum benefits of the free trade system. Far from sharing the costs, Japan is inevitably termed as a free rider on the international security and the free trade system. Japan must soon grow out of its small nation's logic and self-indulgence, and share the responsibility suitable for a world economic giant." Despite the expectations that it will conduct itself as a great nation, Japan keeps showing off its small nation's logic which reflects nothing more than an egoistic self-centered

nationalism. These domestic and foreign understandings which do not conform to expected behavior are the fundamental cause of the economic friction.

#### (4) Collision With a Foreign Culture

The yellow peril theory may be an extreme explanation, but it is undeniable that there is a view that the collision with a foreign culture different from the European and American sense of values lies at the root of the economic friction.

Even among foreigners with more objective views of the situation there is adamant support of an argument that the closed nature of the Japanese market stems from the historical and social isolation since the time of the national isolation, and that foreign businesses will find it difficult to penetrate the Japanese market mainly because of the special structure and character of the family-oriented and spiritually motivated Japanese industrial organizations.

As reviewed above, the surface of the economic friction is truly the economic problems, but in the background are political, social and cultural problems. In this sense, the phenomenon should be rather addressed as compounded friction. Because of this compounded nature, response to the problem is troublesome and it is not easy to solve.

### 2. How Long Will the Economic Friction Last?

The question of how long the economic friction lasts depends on the persistence of the four causes of the economic friction described above. Now, let us straighten out the points of the arguments concerning this issue.

#### (1) Duration of the Trade Imbalance

The previous two upward trends of the ordinary balance surplus were interrupted by the first and the second oil crises, respectively. Inversely, the ordinary balance immediately after each oil crisis showed a deficit of about 1 percent of the GNP (refer to the separate chart).

However, the current expanding trend of the ordinary balance surplus (since 1981) appears strong enough to continue longer because of a very small risk of having another oil crisis for the time being. If a large ordinary surplus of the 3 percent GNP continues, the economic friction will endlessly intensify beyond remedy no matter what kind of external economic policies are charted or what kind of concessions are made.

In comparison, the majority view is that a large portion of Japan's trade imbalance is due to a high U.S. dollar and a low Japanese yen. The economic report made by the U.S. President last February analyzed that a large part, \$60-70 billion of the American trade deficit which expanded to \$85 billion in the 1980-84 period, was attributable to the high value of the dollar. Also, according to the analysis made by this agency using several economic models, one-half of the Japan-U.S. trade imbalance (surplus on the Japan side based

upon customs clearances) which expanded to \$19.8 billion during 1981-84 was caused by the high dollars and low yen.

According to the results of this analysis, it is thought that a considerable portion of the Japan-U.S. trade imbalance can be reduced if the high dollar can actually be corrected. However, simply urging America to correct this high dollar situation may be like chasing a dream which will never come true, like following a mirage above an oasis. Japan also must commit itself to correct the high dollar low yen exchange market, by resorting, for example, to a tax reform to facilitate higher anticipated yields for domestic investments and development of the TB and BA money markets to promote capital inflow by making yen assets attractive.

Furthermore, it is a fact, that the domestic oversaving (accordingly, ordinary balance surplus) situation is likely to set in for a long while, judging from the savings and investments balance. However, we must expand the domestic demand so that the oversaving will not greatly exceed, for instance, 1 percent of the GNP. During a fiscal rebuilding period, the expansion of the government expenditures is limited, so we must inevitably depend upon the private sector for much of the corrective action.

In respect to the expansion of private investments, the basic approach may call for further promotion to ease restrictions in information communications, finance, transportation and urban development fields to increase attractive investment opportunities, and for action to raise yields for investments through the previously described tax reform. In order to reduce domestic oversaving, the expansion of consumption is the most effective means for the time being. The electric and automotive export industries which earn Japan's trade surplus and pride in high yields are especially encouraged to give a generous boost to wages for the sake of consumption expansion. The Japanese businesses, having acquired the world's strongest competitive power, may also be said to have a responsibility to prevent the burgeoning worldwide protectionism and act with discretion to safeguard our national interests from jeopardy.

Undoubtedly, if we succeed in correcting the high dollar value and expanding domestic demand by the above-mentioned positive actions of the government and business, we can contribute to the solution of economic friction through a reduction of the trade imbalance.

## (2) Improvement of Market Accessibility

Tariffs and the number of remaining import restriction items are an index which indicates market accessibility quantitatively. As far as seen from these, the Japanese market is pretty well open to foreign goods. Tariffs have been reduced seven times since 1981 as part of the external economic policies (Table 2). Japan made headway in the drive to advance the tariff reduction schedule agreed upon during the Tokyo Round. Further, the tariff burden rate (tariff revenue/import value) is about 2.5 percent, the world's lowest level, even lower than for America and the EC. Also, the number of

the remaining import restriction items has been reduced dramatically from 90 items in 1970 (35 items from mining and manufacturing products, 55 items from agricultural products) to 27 items in 1985 (5 mining and manufacturing products and 22 agricultural products). At the current state, this number is smaller than the 46 of France and the 49 of Norway but larger than other major advanced countries (about 5 items).

In the future, as medium range goals, we will take the initiative in eliminating tariffs on mining and manufacturing products, further reducing the number of remaining import restriction items and improving the preferential tariff system. It is important to enhance the openness of the market in these areas.

Recent requests for improvement of market accessibility are not limited to the reduction of tariff and removal of import restrictions but also extend to other areas: the import inspection procedure, the standards/validation systems, the marketing structure and business practices. The key words of the demands are: 1) fairness; 2) simplicity; 3) internationality; and 4) clarity.

#### (Fairness)

Fair treatment is demanded so that Japanese and foreign business can operate business activities under a fair economic system.

In the past several years, we have certainly taken a large step forward in fairness in the areas of the import inspection procedure and the standards/validation systems. Especially, the liaison and coordination headquarters for the standards/validation systems installed in January 1983 (the so-called Gotoda Commission), laid down a policy for a radical improvement of the systems. To treat foreign businesses equally with domestic businesses in validation procedures such as the acquisition of certificates and inspection processes (no discrimination between foreign and domestic applicants), 18 laws have been revised to date including the Pharmaceutical Affairs Law, the Electric Goods Control Law, and the Road Transport Vehicle Law. This has legally established nondiscriminatory validation procedures for domestic and foreign applicants.

However, perfect fairness in the marketing structure and business practices will not come so easily due to deep-rooted problems such as the preferential purchasing of products from businesses in one's own group. Also, a recently raised demand asks for an assurance of market accessibility to American businesses in Japan similar to that enjoyed by the Japanese businesses in the United States. The concept of fairness itself tends to have more profound implications.

#### (Simplicity)

The Japanese validation procedure is strongly criticized as complex and therefore exhaustive in time and cost. Simplification of the validation procedure has made great progress, for instance, through the elimination of submission of two durability test cars which have been driven 30,000 km for the automobile type approval, by acceptance of foreign test data, and by

simplification of supplementary documents. Other measures for improvement were implemented for drugs and medical devices, home electric products and animal and plant inspections.

However, we still receive many requests for simplification of the details of notification, reduction of safety checklist items, simplification and speed-up of import licensing paper work, including the notorious complaint from Holland suggesting withdrawal of the application of the system imposing 1-year isolated cultivation of tulip bulbs for quarantine purposes, which is practiced only in Japan and ought to be abolished.

(Internationality)

Requests for the adoption of international specifications/standards and systems are one step higher in dimension than requests for fairness. In short, even with the nondiscriminatory validation procedure for domestic and foreign applicants, the effect of nondiscrimination will be small and will not lead to an actual import increase so long as special specifications/standards and systems unique to Japan are in place. In light of this, there is an advocacy to revise those which are uniquely Japanese to widely adopted international specifications/standards.

Also from this point, for example, automobile safety standards were relaxed to the level conforming to those in Europe and America, and a certain improvement was made for food additives and home electric products. Nevertheless, demand for improvement is loudly heard since there are many more products requiring different specifications/standards from those in Europe and America.

As seen from the higher specifications level Japan imposes on communications equipment such as digital exchanges, compared to the European and American level, the safety and reliability of Japanese industrial products are superior. Will it be justifiable to lower the safety standards to the European and American level in the name of internationalization? There is also the issue of noninternationality of the Japanese language as witnessed in the demand for abolition of Japanese language labels for foods. These problems compose a theme of national choice as to where we want to be while arranging a harmonious conformity between the internationality and specialty of the overall Japanese system. That area needs to be studied thoroughly.

(Clarity)

The problem of clarity of the specifications/standards making-process or of the wider policy decision-making process was one of the most important points during recent Japan-U.S. negotiations.

Also, in this aspect, we have made sizable progress in the past couple of years by creating opportunities to hear foreigners' opinions in the process of drafting a proposal for specifications/standards and by undertaking external and internal PR activities to disseminate the news of revised specifications/standards in the fields of consumption products, electric products, drugs and automobiles.

However, in the recent Japan-U.S. negotiations over the cabinet and ministerial ordinances of the Electric Communications Enterprise Law, the American side requested public announcements of draft proposals for cabinet and ministerial ordinances and participation of foreigners in the deliberation process. These claims reduce the policy decision-making process to a discussion in a goldfish bowl and eventually minimize the administrative discretion. In a sense, they are suggesting robotization of bureaucrats without freedom to exercise their discretion. Such demands will not be easily met, considering the Japanese administrative practices and the pride of the bureaucrats.

As seen above, accessibility of the Japanese market has improved rapidly in the past several years. However, all-out promotion based upon the criteria of fairness, simplicity, internationality and clarity will develop into the issue of overall reconstruction of Japanese systems and structures. From this point of view, it is naive to expect a settlement of the economic friction over the enhancement of the market accessibility in a short period of time, and it will require extraordinary efforts to substantially quiet the friction.

### (3) Sharing of Responsibility Appropriate to a Great Economic Power

It is our urgent duty to share international responsibility appropriate to the world's greatest trade surplus/capital supplier nation. To exercise this, first, we are asked to get involved positively and make proposals for maintenance and reinforcement of the world's major systems, particularly the free trade system and the democratic economic system. In this context, a proposal for a New Round will be appreciated as our first step of stronger commitment.

Second, we are expected to take a larger share of the costs for the maintenance and improvement of the world systems. Particularly, our main field of action appears to be in the area of dynamic fulfillment of economic cooperation, promotion of direct investments and technology transfers and execution of vigorous industrial coordination.

Third, as an economic great power, we must respond promptly to the world's expectations and requests. We must cast off our small nation's logic and quickly transform ourselves to act according to a newly learned logic of a great nation lest Japan be associated with the everlasting image of a selfish self-centered free rider and the basic factors of economic friction persist forever.

### (4) Solution to the Closed Society

The traditional value depicted by the saying, "Silence is golden," is depreciating. We are now in the age where those who are poor in verbal expression are not properly evaluated. A more easily adoptable international change is taking place, where the dignity of a man of few words is no longer valued and the frivolity of a chatterbox is appreciated. Also, internationalization and liberalization are progressing greatly in the worlds of fashion, sports and music which dominate our leisure life.

However, Japanese society is still very profoundly closed in the basics of social life: employment, education and residence. There are plenty of problems which must be reevaluated in a Japan aspiring to be a world state, for example, the severe restrictions for employment of foreigners, the exclusion of foreign teachers from public schools and the fingerprint requirements for alien registration.

Although we greatly enjoy the advantages of an extremely advanced internationalization of goods and capital exchange, we are very timid about opening our society. That may again reinforce the image of a self-centered egoistic nation, and carries the risk of being seriously considered to be a profound cause of future economic friction, although this aspect is not now so noticeable.

### 3. Are External Economic Policies Effective?

From the point of view of fundamentally dissolving the roots of the friction and cutting off its ability to endure, can we say that external economic policies have been effective to date? Of the external economic policies to date, each it may be said, has had its own impact in its own time, particularly as an effective sedative in a wide range of fields: 1) tariff reduction; 2) relaxation of import restrictions; 3) improvement of standards/validation systems and import inspection procedures; 4) promotion of imports; 5) opening the market to advanced technology fields such as electric communications and software; 6) liberalization of financial and capital markets; and 7) expansion of economic cooperation.

Also, they include policies such as 3), 5) and 6) which have an important medium to long-range effect on the improvement of Japanese market accessibility and the opening of Japanese markets, although time is needed to effect an actual increase in imports.

Recent American criticism that external economic policies are not effective because they have not brought a remarkable increase in imports must be labeled not only as an argument concealing the fact that the most serious barrier to increased imports is the high dollar value, but also as a hasty and narrow opinion which ignores the medium and long-range effects of some of the policies for improvement of market accessibility.

Nonetheless, we must admit that the policies we have laid out to date are flawed with the following three defects. First is the lack of a program system.<sup>1</sup> That is, if the interrelation (a program system) of ideas, objectives and means which are the premises for policies is not made clear, then

1. In the external economic policy decided on 9 April by the government, a certain degree of innovation is worked out; for instance, it indicated not only measures decided to that point of time but also a future policy program. However, further improvement is required to structure effective goals and a systematic means to achieve them.

the medium-range objectives, procedures and means to achieve the goal are not clear. Then a make-shift program is put together under foreign pressure and results in programs which give the impression that they are partial and fragmented in content.

The second flaw is inadequate program management. In short, there are problems related to the method of policy-making and management--the lack of a process for hearing foreign and domestic opinion and asking their participation in discussions, inadequate public relations policies toward foreign countries, and absence of assessment of policies in effect. This point can be applied to the entire Japanese administration, and there are many issues to be improved upon--disclosure of information, assurance of clarity in policy-making and thorough assessment of policies. Also, the truth of the matter is that currently only a handful of staff are at work in their spare time on the external economic policy program management. It is, let us add, necessary to inject a considerable amount of funds, organization and staff to improve the management.

The third flaw is the problem related to the integrity and strategy of policies. As already described, the following are necessary to solve the roots of the economic friction: 1) a solution to the trade imbalance; 2) drastic improvement of market accessibility; 3) sharing of responsibilities and costs appropriate to a great power to maintain and strengthen the free trade system; and 4) realization of a completely open society in Japan. Conventional policies alone are not sufficient to respond to these issues. The innovations described below are necessary to enhance the integrity and strategy of the external economic policies.

#### 4. Is There a Wonder Drug To Solve the Economic Friction?

In order to prescribe a wonder drug for a fundamental solution to economic friction, a great deal of wisdom, passion and money must be injected. It is beyond the knowledge and ability of this author to define the details for the prescription for this wonder drug, but if I were to write even one line in the label of the wonder drug, it would be "creation of a new system and structure suitable for a world state."

Adding a short notation to this label "creation of a new system and structure suitable for a world state," it may be described as:

- a. formation of an economic system
- b. reconstruction of a resource distribution structure,

suitable for the world's largest trade surplus and capital supplier nation (the world's number one creditor nation in the near future).

In forming an economic system, 1) fairness, 2) simplicity, 3) internationality, and 4) clarity, are its criteria. Regarding 1), equal opportunities in employment, education and residence for Japanese citizens and foreigners should be encouraged. In short, we must promote expansion of employment opportunities for foreigners, liberalization of hiring foreign teachers, and a systematic reform for liberalization of alien residency.

Also, relating to 2) and 3), we must further facilitate simplification and internationalization of specifications/standards as well as completely enforce international bidding for government procurement (including public works), and promote internationalization and liberalization of all service fields such as marketing, transport, legal services, medical care and conventions.

Regarding 4), to enhance the clarity of the policy-making process, we must step out of tradition and hold public hearings including foreigners and invite the participation of foreigners in deliberative councils. Also, we must, by clarification of laws and regulations, eliminate administrative guidance and discretion, and achieve a state of nearly unlimited clearness. The devotion of Japanese bureaucrats to their work should be directed not to the exercise of the administrative discretion on particulars but to the reform of systems and structures from a broader point of view, which, in the end, is the way to prevent robotization of the bureaucrats.

Next, "reconstruction of a resource distribution structure for a world state" can be translated as giving greater priority to international goals than to domestic goals in resource distribution. Simply, it means that we must decisively expand the allocation for budget and staff to activities contributing to the solution of economic friction, typically, economic cooperation, international information acquisition and analysis, and international industrial coordination.

For instance, regarding ODA, we must attain the highest quality and quantity among DAC member nations. In this case, the ODA ratio to GNP will exceed 1 percent. For its effective implementation, the precondition is to promote the reform and fulfillment of the aid function from the viewpoint of implementing aid based on economic analysis, which, for example, will strengthen our ability to select truly effective projects for the economic development strategies of the aided nations. Also, we must refrain from preserving industries which have lost comparative advantage and yield to the foreign countries for expansion of imports and consolidation of the free trade system. That is the duty of a world state. We should not regret the domestic costs which will be incurred to turn the wheel smoothly. Considering that the social welfare expenses such as pensions and medical care currently take 12 percent of the GNP and will exceed 15 percent by the year 2000, and that the government investments on public works is 80 percent of the GNP, we should of course share the burden to protect the life line of Japan even if the cost of maintenance and reinforcement of the free international economic systems such as the free trade system will be about 2-3 percent of the GNP. In emergency, we should pay for it even if the resources allocated for domestic use have to be reduced.

The above notation is fragmental. In order to assume a full commitment to the drafting of a prescription for the wonder drug, we must put our brains together, to begin with, to formulate an action program<sup>2</sup> for the improvement

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2. In pursuit of the action program for improvement of market accessibility, it was decided in the external economic policy of 9 April to provide the framework by the end of this coming July.

of market accessibility proposed by the External Economic Problem Advisory Committee (chairman, former foreign minister Saburo Okita), and a creation of a new system and structure as a world state. As one idea to turn the wheel, it is suggested that the government should revise "Economic Society of 1980's, Outlook and Guideline," and newly compile an "Economic Society Plan for Internationalization." In taking this step, the method of planning should also be reviewed to enhance the internationality and clarity of the plan.

In the process of completing the wonder drug prescription, we are expecting difficulties such as significant domestic friction. Yet, in the eyes of foreigners, Japan has now begun to appear like an omen which gulps down the world's fortunes and riches rather than a weak scapegoat. If Japan wishes to survive as an international state, it must proceed at full speed and prescribe the wonder drug for the solution of the economic friction so that Japan will not walk the road from the image of the scapegoat toward the image of the omen.

Table 1. External Economic Friction and Economic Policies\*

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Friction With Asia

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1970	In Thailand, import duties on 229 items were raised (July).
1971	In Thailand, measures for an import duty charge on Japanese goods were taken (September).
1972	In Thailand, an anti-Japanese movement was organized by NSCT (National Student Center) (November). Thailand established "Foreign Business Regulation Law" (November) and "Alien Occupation Regulation Law" (December).
1974	In Thailand, an anti-Japan demonstration was held during Prime Minister Tanaka's visit (January). In Indonesia, an anti-Japanese riot occurred. Guidelines were instituted regarding foreign and domestic investments (January). In Japan, a single source for import of raw silk was put into operation (August).
1975	Japan implemented a premarket approval and validation system for silk threads and silk fabrics (September and November).
1977	Korea initiates discriminatory import restrictions against Japan by administrative guidance (November).
1978	Thailand banned import of 18 items for automobiles and motorcycles (February). Thailand raised import duties on 241 items for electric products (March).

[continued]

Table 1 [continued]

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1979	Indonesia implemented an economic nationalization policy (April). At the Japan-ASEAN economic ministerial conference, a reduction of tariff and nontariff barriers on items of ASEAN interests was requested (November).
1980	Indonesia launched log export restrictions (March). Korea legislated a multisource import item system (November). Prime Minister of Sri Lanka requested reduction of tariff on black tea (December).
1981	President of Philippines requested reduction of tariff on bananas (January). Industrial Minister of Sri Lanka requested reduction of tariff on black tea (June).
1982	Indonesia carried out a counterpurchase policy (January). President of Philippines requested a reduction of tariff on bananas (July). Thailand imposed import charges (October).
1983	Prime Minister of Malaysia requested a reduction of tariff on palm oil (May). Finance Minister of India requested a reduction of tariff on shrimp and black tea (May). President of Indonesia requested cooperation for promotion of nonpetro product exports (October).
1984	At the ASEAN economic ministerial conference, a further reduction of tariff on items of the ASEAN's interests was requested (May). President of Malaysia requested a correction for the trade imbalance with Japan (May and October). President of Korea Chun visited Japan and requested a solution to the trade imbalance problem (September). In Thailand, students led a Japanese goods boycott campaign. Import tariff was raised, centering on luxury items (October).

[continued]

Table 1. [continued]

Friction With America

1970 A case for a reciprocal cancellation of tariffs on electronic machines and components was presented (Zenis Co., April).

1971 The court adjudicated the dumping of TV's made in Japan (March).  
<President Nixon laid out a new economic policy (August).>  
Conclusion of an intergovernmental agreement on wool and synthetic fabrics (October).

1972 Japan and EC started the second voluntary restrictions of iron and steel to the United States (May).

1974 <GATT reached an international textiles trade agreement.>  
An escape clause for ballbearings was invoked (tariff was raised in May).

1975 <The 1974 Trade Law took effect (January).>  
Escape clauses were invoked one after another for industrial fasteners (May), special steel (July), footware (August), metal tableware (August), cosmetics (October), stainless steel wire (December), etc.

1976 Request for investigation of Article 337 of the Customs Duty Law in regard to color and black and white TV's (January).  
Japan-U.S. OMA (June 1976-June 1979) was concluded for special steel (June).  
An escape clause for color TV's invoked (September).

1977 Thick board dumping case was presented (March).  
Japan-U.S. OMA (July 1976-June 1980) was concluded for color TV's (June).  
A case was presented regarding the dumping of five items of steel materials (September).

1978 Introduction of an iron and steel trigger price system (January).  
IC competitive power survey started (December).  
Japan-United States agreed in general on major exchange fields at Tokyo Round (December).

[continued]

Table 1. [continued]

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1979	<p>&lt;Tokyo Round, initial signature (April).&gt;</p> <p>Ushiba-Strauss Joint Communiqué concerning government procurement (June).</p> <p>&lt;Establishment of 1979 Trade Agreement Law (July).&gt;</p>
1980	<p>Due to the presentation of the case of dumping iron and steel in Europe, a trigger price system was suspended (March, resumed in October).</p> <p>VAW (June) and Ford (August) pleaded rescue from passenger car imports.</p> <p>Tariff was raised on small truck cab chassis (August).</p>
1981	<p>In America, demand for import restrictions of Japanese automobiles gained strength (February).</p> <p>Voluntary restriction of automobile exports to the United States announced (May).</p>
1982.	<p>Reciprocity bills were presented one after another in the U.S. House and the Senate (February).</p> <p>America requested reduction of tariffs on tobacco and expansion of shops dealing in foreign tobacco (May).</p> <p>American Harley Davidson Company took the case to ITC asking for import restrictions for large-size motorcycles (September).</p> <p>The local content bill passed the House in the plenary meeting (December).</p>
1983	<p>Local content bill was presented in the House (February).</p> <p>A tariff increase on motorcycles of 700CC and up was implemented (April).</p> <p>Japan's minister of MITI informally disclosed the 1984 voluntary restriction of automobile exports to the United States (November).</p> <p>President Reagan requested opening of financial and capital markets (November).</p>
1984	<p>At the seventh high level conference, Wallis requested eight items: (agricultural products, tariff, investment exchange, standards/validation, communications satellites, software protection, foreign capital participation in VAN, etc.) (February).</p>

[continued]

Table 1 [continued]

1984 Presidential decision on American iron and steel rescue measures  
[cont] (September).

<Establishment of 1984 Trade Tariff Act (October).>

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Friction With EC

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1972 Voluntary export restrictions on iron and steel to Europe started (extended to 1974) (January).

1973 EC commission adopted an import quota system for Italy for tape recorders (April-September).

1974 EC commission exercised surveillance over imports of tape recorders (March).

Italy introduced a quantitative import restriction on slide fasteners (August).

1975 EC commission exercised surveillance over exports of 22 textile items (May).

Italy introduced a quantitative prenotification system for color TV imports (August).

Britain investigated saccharin (October) and requested voluntary export restriction on automobiles (December).

1976 Voluntary export restrictions of iron and steel to Europe were resumed (January).

EC commission requested voluntary export restriction of special steel (September), and made a public statement requesting voluntary export restrictions on iron and steel, automobiles and bearings (November).

The Shipbuilding Subcommittee of the EC commission proposed a market allocation for orders receivable (December).

1977 EC commission imposed a provisional antidumping duty on Japanese-made bearings (February).

Italy designated motorcycles as an import approval item (May).

EC commission decided to impose an antidumping duty on bearings (July).

West Germany requested voluntary export restrictions on tableware (July) and motorcycles (August).

[continued]

Table 1 [continued]

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1978	EC commission introduced a basic price system for iron and steel (January).
1979	EC commission started a dumping complaint procedure in regard to five Japanese made items including bearings (February-September).
1980	OECD Shipbuilding Subcommittee of the EC commission requested Japan to control orders receivable (October).
	Foreign Ministers Council of the EC made a statement addressing Japan (November).
1981	EC commission introduced import surveillance over Japanese made automobiles, color TV's and some machine tools (February).
1982	EC Foreign Ministers Council decided to request a conference on Paragraph 1, Article 23 of GATT in respect to Japanese trade policies (March). The request was accepted and conferences were held (May, July, August). The Foreign Ministers Council decided to move on to Paragraph 2 (December).
	France limited the customs entry for VTR imports to the Poitiers Customs Office (October).
	Phillips Company presented the case of VTR dumping by Japanese makers to the EC commission (December).
1983	EC commission requested voluntary export restrictions on 10 items of Japanese made products (VTR, color TV's, etc.) (January).
	Japan announced voluntary export restrictions on 10 Japanese made products to EC (February).
	EC Foreign Ministers Council announced serious concern over the trade imbalance between Japan and the EC (November).
	EC Foreign Ministers Council decided to raise tariff on digital audio disks (November).
1984	EC presented a list of requests (revised version) to Japan containing import promotion and tariff reduction on particular items (April).

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Economic Policies

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1971	Promotion of comprehensive external economic policy (First yen policy, 4 June).
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[continued]

Table 1 [continued]

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1972	Promotion of an emergency external economic policy discussed (Second yen policy, 20 May).
	Promotion of an external economic policy discussed (Third yen policy, 20 October).
1977	Comprehensive economic policy (3 September).
	Promotion of external economic policy discussed (20 September).
	Basic direction of external economic policy discussed (6 December).
1978	Import promotion measures discussed (11 March).
	International trade balance policy, and price policy associated with the high yen (21 April).
	Comprehensive economic policy (2 September).
1981	External economic policy (16 December).
1982	Improvement of the import inspection procedure (30 January).
	Open market policy (28 May).
1983	Promotion of temporary external economic policy discussed (13 January).
	Improvement of standards/validation systems discussed (2 March).
	Comprehensive economic policy (21 November).
1984	External Economic Policy (27 April).
	External Economic Policy (14 December).
1985	External Economic Policy (9 April).

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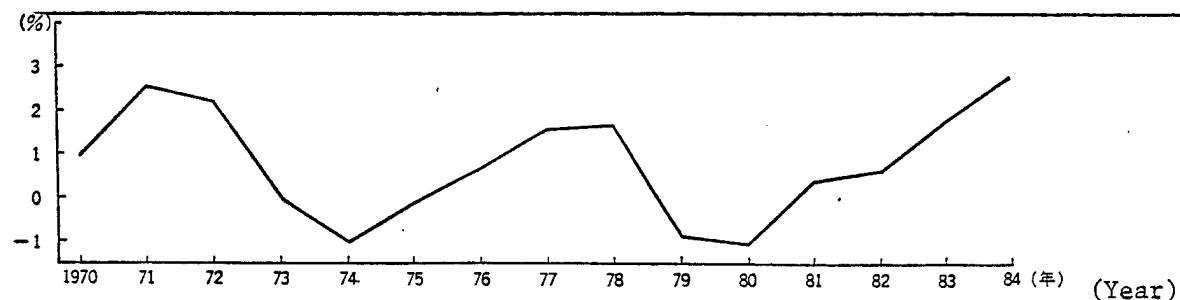


Figure. Rate of Ordinary Surplus to Nominal GNP (percent)

Table 2. Summary of External Economic Policies

1. Reduction of Tariff, Relaxation of Import Restrictions

External Economic Policies (decided 12 December 1981)

Reduction of tariff	o Measures to advance the tariff reduction schedule in accordance with the Tokyo Round agreements (one law, 2 years).
	o Reduction of tariff on particular items such as whiskey.

Relaxation of import restrictions	o Review and report of remaining import restrictions.
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Open Market Policies (decided 28 May 1982)

Reduction of tariff	o Removal and reduction of tariffs on particular items (215 items).
Relaxation of import restrictions	o Raising import quotas for four items such as herring and processed pork, and setting minimum import quotas.

Current Promotion of External Economic Policies (decided 13 January 1983)

Reduction of tariff	o Removal and reduction of tariffs on particular items (86 items).
Relaxation of import restrictions	o Relaxation of import restrictions on six items such as miscellaneous nuts and peanuts.

Comprehensive Economic Policies (decided 21 October 1983)

Reduction of tariff	o Removal and reduction of tariffs on particular items (44 items).
	o Measures to advance the tariff reduction schedule on mining and manufacturing goods in accordance with the Tokyo Round agreements.
	o Approximately 50 percent expansion of the total preferential ceiling for mining and manufacturing goods.
Relaxation of import restrictions	o Implementation of required measures, following the results of conferences with foreign nations.

[continued]

Table 2 [continued]

External Economic Policies (decided on 27 April 1984)

Reduction of tariff	<ul style="list-style-type: none"><li>o Removal and reduction of tariffs on particular items (76 items).</li><li>o Measures to advance the tariff reduction schedule in accordance with the Tokyo Round agreements (in view of the actual enforcement in major advanced countries, 1 year advancement for agriculture, forestry and fishing products; 2 year advancement for mining and manufacturing products).</li><li>o Addition and expansion of duty-free items based upon the agreement regarding the private aircraft trade.</li></ul>
Relaxation of import restrictions	<ul style="list-style-type: none"><li>o Increase of import quotas for high grade beer and oranges.</li><li>o Liberalization of imports and expansion of import quotas for other items.</li></ul>

External Economic Policies (decided 14 December 1984)

Reduction of tariff	<ul style="list-style-type: none"><li>o Measures to advance the tariff reduction schedule in accordance with the Tokyo Round agreements (2 years advancement for items of agriculture, forestry and fishing products from developing nations, 1 year advancement of others; 2 year advancement for mining and manufacturing products).</li><li>o Removal of tariffs on individual items (11 items).</li><li>o Expansion of total preferential ceiling for mining and manufacturing products.</li><li>o Reduction of SP items (selected products).</li><li>o Reduction of items exempted from the prevential special measures for late-start developing nations.</li></ul>
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External Economic Policies (decided 9 April 1985)

Reduction of tariff	<ul style="list-style-type: none"><li>o For the next 5 years, the domestic forestry and lumber industry promotion policy will be specially applied. Roughly starting from the third year, a positive step will be considered to reduce tariff on plywood of conifers and broad-leaf trees commensurate with the effect of the policy.</li></ul>
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[continued]

Table 2 [continued]

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- o Decisions relating to the reduction of tariffs on other items will be made before the end of the first half of this year.

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2. Improvement of Standards/Validation Systems and the Import Inspection Procedure

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External Economic Policies (decided 12 December 1981)

- o Organization of concrete improvement measures after reviewing the domestic inspection and examination procedures (by January 1982. For those which require legislative amendments, proposals for required amendments will be presented at the next ordinary session of the Diet).
- o Appropriate application of the import inspection procedure, etc.

Open Market Policies (decided 28 May 1982)

- o Active utilization of the organization for complaint processing improvement (OTO) with respect to market opening problems. Speedy improvement of the wild rice and metal bat cases.
- o Smooth implementation of improvement measures for customs procedures.
- o Assurance of clarity of the specifications/standards making-processes (participation in the process by interested foreigners, etc.).

Current Promotion of External Economic Policies (decided 13 January 1983)

- o Improvement of standards/validation systems (installation of a liaison and coordination center), further improvement of import inspection procedures.
- o Holding of OTO advisory meetings.
- o Strengthening of the OTO function (introduction of a complaint-by-agent system).
- o Reinforcement of administrative surveillance.
- o Appropriate response by official.

Comprehensive Economic Policies (decided 21 October 1983)

- o Forceful promotion of OTO activities.
- o Faithful implementation of improvements for standards/validation systems

[continued]

Table 2 [continued]

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External Economic Policies (decided 27 April 1984)

- o Positive utilization of foreign inspection organizations.
- o Acceptance of foreign inspection data, internationalization of specifications/standards.
- o Simplification and speed-up of the validation process.

External Economic Policies (decided 9 April 1985)

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- o Acceptance, in principle, of foreign clinical data for drug and medical device approvals/examinations based upon the Pharmaceutical Affairs Law, and assurance of clarity in the approval/examination process.
- o Further improvement will be devised for particular problems, and traffic of tall containers will be permitted under certain conditions.

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**3. Promotion of Imports**

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External Economic Policies (decided 12 December 1981)

- o Dispatching of import missions, opening of product exhibitions.
- o Implementation of emergency import foreign currency loans.
- o Implementation of a stock increase of about 1.5 million kl for fiscal 1982 for the national petroleum reserve.
- o Implementation of required measures in regard to the private rare metals reserve.

Open Market Policies (decided 28 May 1982)

- o Improvement of marketing structure and business practices (Studies at product import policy conference of the trade talks, rigid application of the Antitrust Law).
- o Execution of the government procurement agreement by government-related agencies.
- o Gradual expansion of all types of aspiring import tobacco dealers.
- o Implementation of emergency import foreign currency loans.
- o Intensification of close government liaison to promote export of Alaskan oil and western American coal to Japan.

[continued]

Table 2 [continued]

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Current Promotion of External Economic Policies (decided 13 January 1983)

- o Required improvement of marketing structure and business practices.
- o Business consultant system, etc.
- o Execution of the government procurement agreement by the government-related agencies, implementation of measures to accommodate participation of foreign businesses in the National Telegraph and Telephone Public Corporation's procurement.
- o Expansion of imported tobacco dealers.

Comprehensive Economic Policies (decided 21 October 1983)

- o Reinforcement of the import promotion function of the Japan External Trade Organization.
- o Improvement of the marketing structure for imported goods.
- o Various measures for promotion of imports (creation of a month dedicated to promotion of imports of manufactured goods).
- o Promotion of procurement of imported goods by the government, etc.
- o Improvement of imported tobacco distribution.
- o Promotion of imports by loans from the Export-Import Bank of Japan.
- o Facilitation of smoother short-term import financing in yen.

External Economic Policies (decided 27 April 1984)

- o Implementation of a specific foreign product market penetration promotion program (STEP).
- o Support of foreign product exhibitions such as the German exhibition, French exhibition.
- o Liberalization of processed tobacco imports and improvement of imported tobacco distribution (presentation of Japan Monopoly Corporation Reform Bill).
- o Promotion of cooperative relations with energy supplier nations (joint policy announcement by Japan-U.S. Energy Working Subcommittee, including implementation of follow-up work).

[continued]

Table 2 [continued]

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External Economic Policies (decided 9 April 1985)

- o Requesting related businesses to make efforts to import manufactured goods.
- o Holding and supporting of import fairs, etc.
- o Promotion of a sales expansion plan for specific foreign goods.
- o Expansion of financing for import of manufactured goods.
- o Implementation of import promotion campaigns.

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4. Opening of the Advanced Technology Market

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Open Market Policies (decided 28 May 1982)

- o Implementation and relaxation of regulatory measures for use of data processing communications circuits.
- o Free trade principles, promotion of international research cooperation, and consideration of government aided projects in advanced technologies.
- o Installation of a high tech working group.
- o Active study of joint research and joint technical development, etc.

External Economic Policies (decided 27 April 1984)

- o Communications satellites
  - Necessary measures will be provided to open a way for private businesses to purchase foreign communications satellites.
  - While insuring conformity to the space development policy, the way will be open for Japan Telegraph and Telephone Corporation to purchase communications satellites from foreign and domestic sources at its own discretion.
  - Accommodations will be made for government to purchase foreign and domestic satellites for which the space development policy does not require independent technology development.
- o Electric communications business
  - Application of Electric Communications Business Law.
  - Considerations upon assuming of business operation by Japan Telegraph and Telephone Cooperation.
- o Software protection
  - Further coordination in effect.

[continued]

Table 2 [continued]

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- o Electric communications
  - Efforts to provide more opportunities for foreign business participation in material procurement by Japan Telegraph and Telephone Corporation.
  - Assurance of equal opportunities for domestic and foreign businesses, and of simplification and clarity of registration and notification procedures for Type 2 electric communications businesses.
  - Prevention of internal mutual aid in Type 1 electric communications businesses such as Japan Telegraph and Telephone Corporation.
  - Further simplification of technical standards for terminal equipment focusing on prevention of damages to networks.
  - Assurance of clarity in the standards making process.
  - Introduction of import financing by the Export-Import Bank of Japan for foreign communications satellite purchases, prompt execution of frequencies allotment.
- o Electronics
  - Efforts to pass a bill for protection of rights to semiconductor chips and a bill for an amendment of the copyright law to protect the rights to computer programs.
  - Talks with advanced nations to encourage expansion of mutual dismantling of tariffs.

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## 5. Liberation of Financial and Capital Markets

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### Open Market Policies (decided 28 May 1982)

- o Adherence to the national treatment of banking, insurance and securities businesses.
- o Submission of requests for installation of information desks by the related organizations to provide information on the advancement and activities of banking, insurance and securities businesses.
- o Facilitation of smoother foreign capital procurement in Japanese financial and capital markets.

### Comprehensive Economic Policies (decided 21 October 1983)

- o Review of actual demand principles in the futures exchange contract.
- o Study of the yen-denominated trade related bank acceptance market.
- o Facilitation of smoother capital exchange.
- o Adherence to the national treatment and promotion of information providing on the advancement and activities of foreign businesses in the financial field.

[continued]

Table 2 [continued]

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- o Issuance of government guaranteed foreign bonds in the U.S. market.
- o Consolidation of laws regarding foreign currency bonds.

External Economic Policies (decided 27 April 1984)

- o Liberalization of financial and capital markets and promotion of internationalization of the yen.

External Economic Policies (decided 9 April 1985)

- o Promotion of materialization of a yen-denominated BA market and a credit futures market.

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6. Others

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External Economic Policies (decided 12 December 1981)

- o Active promotion of investment exchange, technology exchange and joint technology development with OEC nations, and of industrial cooperation such as third-country market cooperation.
- o Efforts for complete achievement of the medium-range goals of the official development aid (ODA).
- o Use of foreign-produced grains in executing KR food aid budget.
- o Refrainment from local rain storm type export of specific items.

Open Market Policies (decided 28 May 1982)

- o Active promotion of investment exchange, technology exchange and industrial cooperation such as the third-country market cooperation.
- o Efforts for complete achievement of the medium range goals of the ODA.
- o Active involvement in food aid using foreign products (KR food aid, etc.)
- o Active contribution to rule-making for the service market under GATT.
- o Efforts for promotion of negotiations between the Japan Federation of Bar Associations and the American Bar Association in regard to the domestic activities of foreign lawyers.
- o Refrain from local rain storm type export of specific items.

[continued]

Table 2 [continued]

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Current Promotion of External Economic Policies (decided 13 January 1983)

- o Active promotion of investment exchange, technology exchange, and joint technology development with OEC nations, and of industrial cooperation such as third-country market cooperation.
- o Refrain from local rain storm type export of specific items.

Comprehensive Economic Policies (decided 21 October 1983)

- o Active promotion of investment exchange, technology exchange and industrial cooperation such as the third-country market cooperation.
- o Further fulfillment of economic cooperation and efforts for efficient and effective promotion.
- o Assurance of moderate exports of specific items.
- o Proper monetary cooperation with international financing organizations such as IMF and World Bank.

External Economic Policies (decided 27 April 1984)

- o Consolidation of an information system for investment exchange.
- o Consolidation of the complaint processing system regarding direct investments to Japan. (Expansion of OTO process)
- o Support of investment promotion missions.
- o Improvement of procedures for direct investment in Japan.
- o Efforts for charting proper solutions as soon as possible for the problems relating to the domestic activities of the foreign lawyers.

External Economic Policies (decided 9 April 1985)

- o Measures responding to the Foreign Economic Problem Advisory Committee's report.
  - Policy operation in deference to the medium-range policy proposal.
  - Making a policy for the action program intended to improve market accessibility. (The framework will be laid out by the end of July of this year.)
- o Assurance of moderate exports.

[continued]

Table 2 [continued]

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- o Expansion of economic cooperation  
---New ODA medium-range goals will be set also for 1986 and later to contribute to a steady quantitative expansion and all possible qualitative improvements.
- o Promotion of investment exchange.
- o Acceptance of domestic activities by foreign lawyers.

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8940  
CSO: 4105/257

ECONOMIC

FOREIGN MINISTRY PROPOSES DOMESTIC STIMULATION

OW251247 Tokyo KYODO in English 1040 GMT 25 Jul 85

[Text] Tokyo, 25 July KYODO--The Japanese government should implement a series of pump-priming steps as a follow-up to its action program of market-opening measures, a high-ranking foreign ministry official said Thursday.

The official emphasized that such measures should include an investment tax credit and easier housing loan conditions to stimulate domestic demand.

His remarks were tantamount to a rare admission by a powerful government leader that the proposed action program would not be sufficient to overcome tough protectionist sentiment in the U.S. Congress.

Prime Minister Yasuhiro Nakasone's government will announce details of the action program Tuesday.

Nakasone, Foreign Minister Shintaro Abe and other ministers will hold an emergency meeting with leaders of the ruling liberal-democratic party Friday in an attempt to make the action program a comprehensive one, government sources said.

The sources said that Nobuo Matsunaga, the Japanese ambassador to Washington, will attend the session to explain the worsening protectionist sentiment in congress.

U.S. envoy Mike Mansfield relayed a similar message to Nakasone Thursday afternoon.

CSO: 4100/666

ECONOMIC

JAPANESE INDUSTRY WELCOMES STRONGER YEN

OW151403 Tokyo KYODO in English 1218 GMT 15 Jul 85

[Text] Tokyo, 15 July KYODO--Japanese industry generally reacted favorably to the yen's sharp appreciation on the Tokyo foreign exchange market Monday.

The yen shot up 4.20 yen to close at a one-year high of 238.60 yen per U.S. dollar.

Industries which welcome the yen's high exchange value most are electricity and petrochemicals, which will enjoy lower fuel and raw material costs.

But oil refiners and wholesalers remain cautious about the effects of the stronger yen, as lower raw material costs might lead to stiffer competition at the retail level.

The automobile and electric and electronics industries reacted rather coolly. The higher yen will erode their profit margins.

The nation's nine electric power companies will be able to save a combined total of 120 billion yen a year if the yen remains at around 240 yen to the dollar, which, together with such favorable factors as lower oil prices and ample water supplies, will help boost their profit performance in the current business year ending next March.

The petrochemical industry, which uses imported naphtha as a main starting material, is hoping the yen will appreciate further.

In the case of oil refiners and wholesalers, the higher yen will cut both ways. On the one hand, it lessens the cost of importing crude oil by about 47 billion yen a year for each 1 yen by which the currency appreciates. But it will also intensify competition at the retail level.

Officials in the automobile industry welcome the stronger yen from the standpoint of easing trade friction with other countries, although it will cut the industry's profit-generating capability to a certain extent. "The effects will be negligible," one official said.

More or less the same view was expressed by the electric and electronics industry as it largely anticipated the yen's appreciation to this extent.

The plant and precision equipment industries remained rather nonchalant about the yen's recent sharp appreciation as key European currencies are also appreciating against the dollar.

The steel industry, which depends on trade for most of its business dealings, will not be affected by the higher yen as its exports and imports will cancel each other out in terms of their costs.

Officials of the Japan Foreign Trade Council, a group of major trading firms, said they expect to see an eventual rise to 230 yen to the dollar.

CSO: 4100/666

ECONOMIC

FOREIGN FIRMS MAY OPERATE IN BOND FUTURES MARKET

OW091215 Tokyo KYODO in English 1204 GMT 9 Jul 85

[Text] Tokyo, 9 July KYODO--The Tokyo Stock Exchange [TSE] at an ad hoc committee meeting Tuesday decided to permit foreign securities dealers to operate in the Tokyo bond futures market to be opened in October this year.

According to a plan adopted by the committee, Japanese banks and foreign banks and securities firms operating in Japan will be accepted into the market in addition to the 83 member firms of the exchange, provided they meet two conditions--more than one year of dealing experience in national and other public bonds circulating in the market, and capitalization of 200 million yen or more. All 83 TSE member firms meet these conditions.

The TSE expects that 34 Japanese banks, 3 foreign banks and 12 foreign securities firms will participate in the futures market, TSE sources said.

Of medium- and small-scale Japanese securities firms, which are not TSE members, 28 are capitalized at more than 200 million yen. Of these firms, about 10 are expected to take part in the new market.

Altogether, the sources said, about 140 companies will participate initially.

The plan for the bond futures market will be formally approved at the TSE's extraordinary convention in September. To be traded in the market are "standard government bonds" with a face value of 100 yen and a maturity period of 10 years, according to the plan. The coupon rate will be fixed by taking account of the trends of interest rates in the months ahead.

Moreover, the unit of transaction was set high at 100 million yen and a minimum deposit required of the investor in each transaction at 6 million yen so that the futures market will be used mainly by institutional rather than individual investors.

In addition, a reserve fund for breach of contract compensation will be set up to prevent damage to investors in case of a dealer's insolvency. Dealers will be asked to contribute about 46 million yen to the fund.

CSO: 4100/666

ECONOMIC

MID-, LONG-TERM PROSPECTS FOR INDUSTRY

Tokyo KEIDANREN GEPO in Japanese May 85 pp 2-20

[Excerpt] Panel Discussion

Special Feature: Mid- and Long-Term Tasks of Japan's Industry

Japanese Industry's Mid- and Long-Term Prospect

Participants (Without honorifics, in random order)

Moderator: Ryoichi Kawai, the Federation of Economic Organizations (FEO) Industrial Policy Committee chairman and president of Komatsu, Ltd.

Akira Fujisaki, the FEO Natural Resources Policy Committee chairman and president of Sumitomo Metal Mining, Co, Ltd.

Yoshihiko Miyauchi, president of Orient Leasing Co, Ltd.

Reiichi Yumikura, vice-president of Asahi Chemical Industry Co, Ltd.

Hiroshi Watanabe, executive director of Hitachi Ltd.

Yoshiyuki Mochizuki, secretary-general of the FEO Industrial Policy Committee, and managing director of the Industrial Bank of Japan, Limited

Kawai: Today, I would like you to exchange your opinions on the theme of "Mid- and Long-Term Prospects for Japan's Industry."

Now let us begin by having each of you comment on what kind of impact each industry and firm will receive from the future technological innovations, progress in information and networking fields, internationalization and maturity of the society.

Market Matured Since the Rapid Development Period, Which Diversified Needs

Mochizuki: We, in the Industrial Policy Committee Staff Meeting, have had hearings on about 30 different types of industries; let me summarize these and introduce them here.

First of all, it is the common awareness of all the staff members that the environmental changes, such as technological innovations, progress in information and network fields, internationalization, maturing of society and graying of the population, are rapidly in progress.

If we look back chronologically, about 10 years ago, the oil crisis drastically changed the environment of Japanese industries, but even before that, through the period of rapid development, the market was enlarged and the needs of users and consumers came to be fulfilled in a variety of ways, which means the maturing of the market had already begun gradually since that time. As a result, the needs of consumers became diversified; the values of consumers and users changed from goods to services, or from quantity to quality.

Resulting from the changes in consumers' needs accompanying the maturing of society, the demand pattern for each product changed; mass production of a single product often had to be superseded by production of fewer of many products, which opened opportunities for technological innovation.

This is the process in which technological innovations responded to the market whose needs had changed. For instance, the demand for products backed by new high technology has been increasing.

As for the oil crisis, it had a great impact on our country's industry and served as a factor to promote conservation of power and energies, and making products light, thin, short and small. But in my opinion, basically, the changes in the market trend bringing about the present environmental changes had begun before the oil crisis. It is true that the impact of the oil crisis gave rise to the changes in the power structure of industries, as in the case of the raw material industry. But we can say that the oil crisis was one impact that took place in the process of transition toward maturity of Japan's economy which had developed from the post-war recovery period and through the rapid development period.

It is an undeniable fact that in this transition of the Japanese post-war economy and industries that the changes in the economic environment have influenced the position of industries in many ways; but the Japanese firms, by and large, have been successful in adapting themselves to the environmental changes in their own positions and in maintaining and strengthening their competitive powers.

As for technology, after the second oil crisis, the total research and development investment among Japan's private firms began increasing visibly both in its absolute amount and its ratio in relation to sales profit. At that time, the economy had not completely recovered from recession, and the damages from the first oil crisis were still strongly affecting the economy. But it can be said that the experiences gained from the first oil crisis and the judgement by managers of firms that technological development would lead to their own survival drastically changed their posture toward the investment in research and development.

When I ask top executives of firms or those who are in charge of research and development, they all say: Even if, in the future, sales should decrease, the

investment in research and development has to be kept at a constant level. Unless basic research is emphasized and products with originality are produced, the competitive power will eventually be lost.

#### Companies' Objective Is To Maintain Competitive Power

Mochizuki: In short, what industries and firms aim at is the same in any period: to respond to environmental changes and to maintain competitive power. That is the condition for survival for all firms. Everything boils down to how to use marketing strategies, technology and financing effectively to that end.

Fujisaki: Let me begin by telling you what I thought about Mr Mochizuki's comment. For those, like myself, who are engaged in the conventional raw material industry, and have received a strong impact from the oil crisis, and were forced to respond to the change by making difficult adjustment, the present changes in the economic environment have been seen as the consequence of the oil crisis mainly. But Mr Mochizuki's point that the rapid development period actually started the changes in the market and eventually led to maturing is quite convincing.

Indeed, since around 1970, the demand leveled off and gave us the impression that the rapid development period was gone. Especially in conventional raw materials, the demand did not increase due to the trend of conserving natural resources and energy, and at the same time various substitutes came into being due to technological development. For instance, besides substituting one metal with another, the high molecular compound, ceramics, came out as a substitute for metals.

In addition, the fundamental gap between demand and supply exists in the non-iron industries. Developing countries, which are the supplier of natural resources, have more competitive power than advanced nations; nature provides good conditions for mining, and their ores have high quality. In addition, in order to gain revenue, their production continues regardless of the condition of their economy; so, we have a chronic surplus in supply.

Therefore, the pressure we will receive in the future includes: further intensified competitions with developing nations and the problem of how to respond to requests from developing nations or NIC's [NATO integrated communications system] to cooperate in technology transfer. Since developing nations have been committing themselves to industrialization to raise their prestige, recently they have been strongly requesting us to cooperate in the transfer of technology--from basic knowledge to construction technology of refineries. We must keep this situation in mind in the future.

#### Development of New Raw Material Is A Big Task

Fujisaki: Considering from the stagnation of demand and the pressure from developing nations for our cooperation, we have no choice other than moving towards the development of new raw materials. In other words, we have to increase competitive power by purifying conventional products, developing new

products using super-minute particles, and making full use of rare metals.

In addition, since our industries have more older generation employees than younger ones, we are afraid that as the graying of the population proceeds, the labor capability may not be able to keep up with such needs. We will have to face the problem of how to solve such a situation eventually. Furthermore, since ours is the natural resources industry, a great deal of consideration is required for the risk management: how to prepare for the country risk arising from the natural resource nationalism.

Another thing, which also relates to the above, is that as a result of the advanced information technology, I think obtaining and selecting real time information and speeding up the process of decision making will be important. By the advancement of information systems, the information gap among different industries will be reduced further; how to build a network among different industries and firms will become another task.

**In the Information Society, Each Firm's Response Is More Important Than the Entire Industry's**

Fujisaki: In addition, I understand that the Industrial Policy Committee is making a report on the industry's mid- and long-term prospect from the viewpoint that "based on the fact that each firm's contact is not limited to the inside of the industry, we need to focus on problems according to each firm's needs, rather than the needs of the industry as a whole;" I think this is excellent foresight. From now on, deregulation will continue as a trend, and as it progresses, the fences between different industries will be made smaller and smaller. In short, deregulation will not only activate the private sector, but eliminate fences between industries as well; therefore, the contact with each firm will be more important than that with the industry as a whole.

**Adding Values and Innovation in Distribution are the Tasks**

Yumikura: Our job is gradually becoming diversified, but we are mainly engaged in petrochemical industry and the production of petroleum-based products, plastics and synthetic textiles. Especially the synthetic textile industry is in supply-surplus structure throughout the world; as you all know, we have frictional problems with advanced countries, and South Korea and Taiwan are fiercely pressing on us. Also, its distribution system, in which thread or cotton becomes finished products, is long involving many people; so, it is the industry with ample depth and width.

Consequently, our tasks will be adding high values to our products by internationalization and technological innovations that go along with it, and furthermore, innovations in the distribution department. Therefore, we will be receiving strong impact from the environmental changes that were mentioned a while ago.

For instance, as the information system becomes more advance, home shopping will be possible; if an extensive "POS" [Photo Optic Service] system is adopted, the

sales information on what products are being sold in which regions can be immediately made available from retail stores or department stores. A firm's survivability will rest on its ability to respond to these things immediately.

In the past, our job was based on mass production, following the trend in vogue, or creating a new vogue, but we cannot continue to do so from now on. We used to complain that an industry is no longer an industry when the production system comes to operate in short cycles producing a small amount of many different products. But we are strongly feeling the danger that if we keep complaining and don't do anything we will be losers; we must adopt technological innovations and build a system that can respond to such changes.

Watanabe: Mr Yumikura just mentioned that we have shifted from the age of mass production to the period when we cannot respond to the market needs unless we produce a small amount of many of many different products, and I feel exactly the same way. In technological fields, too, efforts are being made to respond to such a trend, and recently in many fields, new technological innovations are made to meet the diversified needs. For instance, to print books, you no longer have to entrust the task to a printing store; you can use a word processor or a copy machine and print books easily and inexpensively.

Therefore, instead of just developing technology to build hardware as we used to do before, the question of how to develop uses that suit users will be an extremely important problem for the future technological or production development.

#### Development of Products Appealing to Human Senses

Watanabe: Also, I feel that products that can appeal to sensitivity of people will soon come into play as a very important factor; products that value humanity, or ones that please human senses or provide joy, not only products providing something intellectually appealing. Along with the ongoing innovations in distribution systems and in technology, the question of how to create pleasant feeling or joy for people will be an important task in the future.

Furthermore, the minimization of fences among different industries will bring about intensified competitions, but at the same time it will necessitate cooperation among different industries in order to keep up with technological innovations.

For instance, in order to make new good electronics products, good materials must be developed. By cooperating with material manufacturers in finding good materials, our products will be able to grow drastically. Therefore, I feel that cooperation among industries will be one way to go about dealing with the new environmental changes.

#### Internationalization Promoted By Deregulation

Miyauchi: Speaking as the one engaged in a relatively new industry called leasing, or especially as the one in the tertiary industry, I think that in

the conventional industrial fields in Japan a truly precise network between the government and the private sector exists and this system has been working very well, providing protections or restrictions as needed, which helped Japan to achieve the status of a champion of the secondary industry.

When we started our business about 20 years ago, the network had already been built without taking our existence into consideration; so, we were able to pursue our business activity without being restricted at all. On the other hand, when we came across some matter that had already been fixed, we were stuck with it.

As an example: in fund-raising, which is an important factor for the leasing business, there are restrictions for everything--even for issuing one corporate bond. The biggest assets of our business are the credits based on leasing contracts, but these don't have the mortgage value, so corporate bonds cannot be issued in the capital market. Strangely enough, this can be done freely in foreign countries. In Japan, I feel there are so many areas of restriction.

Speaking from these experiences, I think that internationalization will have a great significance as an impact on industries in Japan. By the fact that Japan is approaching the status of a champion or that we have achieved a high position economically, Japan will be even more exposed to impacts from internationalization.

Internationalization means the process in which a country with strong economic power gradually removes barriers around itself. When that happens, the winners will be the industries or firms who have strong competitive power or the firms who are involved in a mutual system (with other parts of the world) which offers something that only the Japanese can do in Japan with the population of 120 million. We also must admit that only localized firms and the firms with international competitive power will remain, and others not meeting those requirements will be superseded by foreign industries. At the same time, I feel that is what it should be.

As the internationalization proceeds, the conventional precise network will be readjusted, starting from the parts which cannot hold internationally, which leads to deregulation. Then, there will be fewer fields that can fit into the conventional network; and my forecast is that for the businesses such as my own there will be more freedom, which will enable us to provide better services to the business sector.

Growth of Japanese economic power until now was mainly due to the fact that the secondary industry manufactured excellent products and these products were internationally accepted, but a question remains whether the internationally acceptable tertiary industry will be born.

In financing, insurance or other services, Japan has not been accepted very much internationally. For example, if you look at franchise systems or software, most of them are imports. I am not sure if in the tertiary industry there will be enough capability to export some universal systems abroad. This will be the task for the future, but I think that now the time has come for Japan to take this challenge.

Kawai: Thank you very much. Now that we have heard about each industry's current condition and problems, I would like you to comment next on how to cope with the new trend, and what objectives firms are aiming to achieve.

Let's start with Mr Fujisaki.

#### Managers Must Be Innovative

Fujisaki: The first point is to strengthen international competitive power.

For that purpose, as mentioned in Mr Watanabe's comment a while ago, cooperation among different industries will be needed naturally. This in turn leads to further diversification.

What we have been manufacturing so far were general purpose products which do not need separate manufacturing processes, but from now on, we must focus on developing products in different quality and price ranges, especially, new materials and their compound products.

Probably, we will go into where the advanced industry's fence is low: new materials, microelectronics, new energy, bio-technology and information-related fields.

Then it will be increasingly important to raise the level of technology developing power and to adjust the system for obtaining and analyzing information.

It is also necessary to reform the management structure to activate the organization. For the 10 years after the oil crisis, it was all right for managers to be the technocrat type, but from now on, I think managers themselves must be the innovative type in order to cope with the new situation.

Kawai: I understand Mr Yumikura's firm is pushing ahead with diversifying business. How about your opinion?

#### Promotion of Diversifying Business

Yumikura: I agree that the only way is to diversify business.

However, there are many problems that go with it. Although we speak of advanced technology repeatedly, not all firms can go along with it. We have to select carefully which technology we can adopt. It is also costly, so the financing structure will have to be altered too.

Therefore, our company is going into the advanced technology fields for which we can use our past experience in our business; we are currently working on the development of bio-chemicals and electronics-related fields. Also, in order to invest funds and management resources in these fields, it is important to first strengthen the work that our ancestors began. Unless we have the business in which synthetic textile or petrochemicals can bring profits, we can never tackle anything new.

In the conventional textile business, too, if we keep the old attitude and compete for market shares of the already existing products, there will not be much hope in the future. The electronics industry is growing at an unprecedented speed, but in electronics, what is growing is not only, say, LSI. Just like the fan-shaped waves behind a motor boat going at a high speed, a tremendous demand is being created. The question is how the textile business can fit into those waves.

#### Necessity to Cooperate Among Different Industries

Yumikura: For instance, in developing a textile with conductivity, imagine a textile which can be weaved or knitted flexibly, has elasticity, and conducts electricity very well and if you pull it all the way, the electric current will begin to flow and if you let it go again, the electricity will be stopped--such a textile should be welcomed by the electronics industry for many different uses. This is a very different concept from the one we used to have: textiles for clothing. This is concerned with the boundary area between textiles and plastics. We are sending our researchers to many firms lately, but many firms still say, "We never dreamt of such a textile;" this is not yet known widely enough. We would like to concentrate on developing this type of textiles.

Watanabe: As you just mentioned, even though many researchers in our company are studying hard, they still don't know enough about other industries. Also, I think it would be very advantageous to us to have those who are involved in the raw material industry know our needs. I feel cooperation among different industries will be strengthened increasingly in the future and that will be the key to survival.

As to which direction the development should head for, in short, it all depends on how to change the structure of products.

There are two aspects of this. One is how to deal with the conventional "heavy, thick, long, large" part. There is no possibility that power plants or transformer substations will be made useless, since they are part of the central industry; therefore, how to apply new information processing machinery or its techniques into these areas will be an important question when the changing of the product structure takes place. To improve the conventional business, one way to go about it is to utilize or apply electronics, information processing and communication technology for producing conventional products.

Another aspect is that in the electronics-related field it is important to try to manufacture products that can appeal to human senses--something more fun. This is the field in which the conventional type engineers are not enough to come up with good ideas; Mr Fujisaki mentioned that top executives should become innovative, but I think not only the top but also those who are involved in research and development should be innovative, in order to grasp the trend of society and create new things. Therefore, to train a new type of engineers would be necessary from now on.

### Fusion of Software and Hardware, Fusion of Micro and Macro

Watanabe: In relation to that, in firms such as ours, there has been a strong tendency to think that software and hardware are separate things in their development. In the past, hardware was considered important, then as a reaction to that, now people mostly talk about software. But for the future machinery and products, a balance between software and hardware, or a fusion of software and hardware will become very important. Therefore, I think the training of engineers who could go along with that line will be one of our tasks.

Another perspective in relation to the training of engineers is the fusion of micro-scopic and macro-scopic views. The current technological development tends to be micro-scopic, or it mainly pursues micro-scopic phenomena, and macro-scopic thinking is beginning to be lost.

To cite a simple example, recently in medical field, micro-scopic analysis is performed frequently, but macro-scopic treatment is lacking. Those who can perform detailed work are increasing, but there aren't so many people who can understand macro-scopic perspective of technology. I feel that success will depend on the question of how to train personnel so that they can perform such needs.

Miyauchi: At present, among private investment in plants and equipment, probably about 6 to 7 percent is in the form of leasing. The percentage rose gradually from zero in 20 years.

If you compare this with the United States and Europe, the United State's figure is around 30 percent and many countries in Europe has more than 10 percent.

Consequently, it is possible to forecast that the conventional businesses will still grow in the future. However, the conventional style of dealings probably cannot continue; instead, they will grow by adding more delicate services.

For instance, in the leasing of automobiles, you could tie-up with an automobile company and offer leasings with the maintenance services. Also, in the OA machines related fields, we could offer a rental system of personal computers to be rented freely at any time, or in some cases, we could branch out our business to open up personal computer rental shops. If we diversify services, I think there are still ample opportunities for the soft industries to grow.

In other words, it is important to try offering many different little services, which is, in our business, the equivalent of the research and development effort of manufacturers. Therefore, each effort would be very costly, so whether we have the ability to tackle each little thing systematically will be the key to the growth of our industry.

Just as firms which allocate a lot of management funds to the research and development can grow, I think in our industry firms with the ability and personnel resources to try new ideas will be able to survive competitions in the future.

### Organizational Theory From A New Perspective Is Needed

Mochizuki: I think the problem of organization and people--or of labor force--will be considered in a new light in each firm or industry.

In the past, in the middle of the rapid growth period, when firms grew and new fields and new jobs increased, the question of how to cope with this situation came up and organizational theories became very popular; in banks, too, we re-evaluated the organizational structure and the employment system. However, after the oil crisis, we were busy trying to straighten things out, and generally, we did not have enough time to think about these things systematically. Right now, I think new theories on organization or personnel are coming out in relation to the problem of how to respond delicately to the new environmental changes.

Also, as you know, a while ago, in the United States, a special committee summoned by the U.S. president, headed by President Young of Hewlett Packard Inc, came out with a report which suggests four proposals to strengthen the U.S. industry's international competitive power. The four points are: (1) strengthening of R&D, (2) promotion of business investment, (3) improvement of labor quality, (4) adoption of a trade policy to promote exports. These are all important points, but moreover, it is to be noted that the United States, a country with the highly advanced industry, is reflecting upon and analyzing its own international competitive power and seriously searching for appropriate measures.

Kawai: So far, you talked about the problem each industry or firm is facing, and future prospects. Now that Japan's GNP has reached 10 percent of the world, we naturally have to consider external problems.

Actually, the trade friction is becoming serious with many foreign countries, and we receive strong requests from developing nations for economic cooperation including technology transfer. I think it is very difficult to cope with these problems.

President Inayama (of the FEO), who recently visited the ASEAN countries, was also troubled with this problem after feeling the strong criticism against Japan mainly regarding the trade imbalance. I wish there was some nice way to solve this problem. What do you think, Mr Watanabe?

### Behind Trade Friction, Theory of Free Ride On Basic Research

Watanabe: It is an extremely difficult problem, and there is no panacea that works immediately. I think there is no other way but to try to gradually open the market as much as possible. Currently, there is a talk of opening the market of the telecommunication equipment. I think maybe it is good to open it completely and compete with true quality of products.

In addition, at the bottom of the trade friction problem, there is the feeling of despise among Europeans and Americans towards the Japanese technology, deriving from the theory that Japan is enjoying a free ride on basic research.

In my personal opinion, this kind of problem must be solved in order to truly remove the trade friction problem.

Now that Japan has technology and economic power, I feel we must commit ourselves to some higher dimensional work that can lead the world's technology or, by using that technology, make contributions to science, the common asset of the entire humankind.

Therefore, in order to strive seriously to remove the free-ride theory, we are working on basic research very hard.

Japan will have to make big contributions to the world in the technology of the next generation.

Kawai: Besides taking some political measures, no immediate solution is available, so it is probably best to keep steady efforts in things that Mr Watanabe mentioned.

#### Level Division of Labor Is Not Easy

If we compare the production capability of our synthetic textile industry with that of foreign countries, Taiwan exceeds Japan's total production in acryle and ester, and South Korea is getting close to that level. Therefore, as a way to avoid the trade friction, we could entrust these fields to South Korea and Taiwan. However, from our standpoint, we cannot make such an easy-going statement. It is still important for the synthetic textile industry of Japan to be polished in the international market based on the principle of competition so that we can grow stronger. In order to do that, the Japanese industry will probably have to produce high quality textile products by using high technology.

Indeed, more than 60 percent of the polyester produced is exported directly or indirectly, so this could be called too much. But speaking from the management policy of a firm, it is not so easy to curtail the production. Our dilemma is a very deep one. Therefore, the most desirable method from our standpoint would be to adopt some kind of measure to increase the domestic demand. When the economy at home is booming, we can import foreign synthetic textiles, which will work as an adjustment measure to the demand-supply structure; also, with increased profits will enable firms to develop higher technology, which will eventually make it possible to specialize in high technology products.

Mochizuki: During the 1960's, people questioned whether the Japanese textile industry could survive, but it has been doing well for more than 20 years since then, going through many changes. The industry has been competing by using discriminatory system so that developing countries could not catch up with us so easily.

Therefore, it is not a simple task to bring about appropriate and fair international division of labor; I think the firms in our country should continue the effort constantly to strengthen the capability to increase the international competitive power by upgrading products.

The trade friction is a structural problem which cannot be solved overnight. If the price of the dollar goes down substantially, and the American economy goes into a slump, our exports may be reduced substantially. But that, in turn, will create other problems. So this is a problem that needs to be tackled with a long-term perspective and be solved little by little.

It is the question of how to prepare the groundwork for that steadily, involving not only the United States but also Southeast Asia and Europe.

Kawai: It appears that the feeling pervasive in the United States is that a disaster is imminent unless something drastic is done to solve this problem, since the trade deficit is not caused merely by the temporary overvalued dollar, but is structural.

#### Japan's Behavior Has Big Influential Power

Mochizuki: If I may add a few remarks on the problem of internationalization, the basic thing Japan must think about first is that the Japanese industry's position has risen internationally, compared with the time before the rapid growth period, and the behavior of the Japanese industry is now beginning to have great influence on the rest of the world.

During the rapid growth period, the issue of a firm's social responsibility was often discussed, but at present, it has become important to work keeping in mind our international status. If we don't do that, damages will be done eventually to each firm's sales--I think now we have entered such a period. It has become necessary to look at the problem of internationalization from this perspective.

Also, there is a question of how to look at the problem of the boomerang effect in relation to the technology transfer to developing countries. In the past, we used to be able to talk about the problem of the boomerang effect without having to think too much about the real damages; but now that competition has become fierce in and out of the country, the problem has become too complex to be dismissed after discussing it in general terms. However, we should think about the technology transfer to foreign country as a part of a big flow of development.

Also, as internationalization progresses, the industries which used to be mainly domestic market based will have to go abroad and they will have to work under different market and employment conditions from those of our own. Therefore, how to cope with this situation will be another task.

Fujiaski: Among the regulations set by the government, many are contradicting the principles of economics, such as protecting marginal firms, etc. Therefore, I think it is better to remove completely unnecessary regulations regarding imports and exports and demonstrate that our markets are open to foreign countries.

As for internationalization, we cannot ignore the aspect of economic security. Since Japan is a country with poor natural resources, we must always cooperate with countries with rich natural resources. Also, as for the industry which lost competitive power, there is a question of whether it is all right not to have it.

Kawai: Rare metal is an example of that case.

Fujisaki: Yes. If in the future Japan becomes unable to obtain rare-earth metallic elements, such as samarium, I think electric manufacturers will be in big trouble. These cannot be obtained in Japan.

Watanabe: We are using them a lot. We can make a very strong permanent magnet with them.

Fujisaki: As far as aluminum, ferric-alloy, ferric-nickel are concerned, it is understandable if their imports would increase. Sometimes people argue that we don't need any conventional style industries any longer, but we have to also think about the security problem.

Another thing is that our country's basic research is behind other countries, and this is a problem. According to the survey regarding the research cost for fiscal 1983, among the total research cost, 85 to 86 percent was allocated for application research and development research, and only 14 to 15 percent was for basic research. Also, in Japan, the part of the total research cost that the government pays is so little. It is 25 percent in Japan, 46.7 percent in the United States, including the military expense, 48.6 percent in England, 43.1 percent in West Germany, 57.8 percent in France. Japan's percentage is so low. The research fund that the government provides is mainly allocated to universities and public research institutes where basic research is conducted, so, if this amount is so little, our basic research will drag behind even further.

One of the big tasks for the future is how to deal with the problem of labor force misalignment. There are older employees who cannot adjust themselves to the changes in the industrial structure--in other words, the advanced information system and adoption of high technology. I think we have reached the stage where we, both government and private sectors, have to think about how to deal with this situation.

Kawai: As for the question of international division of labor which was mentioned earlier, the United States is accusing Japan, saying, "Why doesn't Japan participate in the advanced countries' level division of labor?" But it is difficult to come up with how exactly to do that.

#### Japan Should Set Examples for the International Rules

Miyauchi: As for how to cope with external problems, now that Japan has become such an economic giant, we must be prepared to set a proper example in the area of international regulations.

In that sense, since deregulation is now a world trend, it is necessary for us to take the initiatives in at least the inevitable things, instead of following other's footsteps. In the trade friction problem, too, I understand there are many political problems, but Japan's response is so slow. The United States seems to be particularly irritated by that. I hope that this trend will not be enhanced even further.

Another thing is that at present a large amount of capital is flowing out of Japan abroad, and I am hoping that the way this is done will not create criticisms from other countries.

In the past, the petrodollars worked as such a destabilizing factor in the market, but if the capital outflow from Japan works the same way, it might create another problem.

Mochizuki: A fear of a kind of financial friction, isn't it?

Miyauchi: At present, it is not talked about particularly, but I am afraid it might come to the fore some time.

Kawai: Right now, it is only that the problem of the yen and dollar liberalization did not go as the United States had hoped.

Well, lastly, I would like you to talk about what kind of policies are desirable for the formation of new industrial society.

#### Policies Based On Market Principles and Responsibility Are Desirable

Fujisaki: In relation to the trade friction problem, there was a talk about the necessity to promote deregulation. What is needed in addition to that is, I think, to increase the domestic demand.

At the same time, I feel the government has the obligation to support particularly the basic researches as an investment for the 21st century. Private firms are cautiously and timidly beginning basic research lately; because they are costly and time-consuming we are not sure the results of the research can have any marketability. Therefore, I hope the government will take the initiative in supporting basic research financially.

Also, in order to activate firms, it is important to proceed with deregulation. In short, I want the government to adopt environmental adjustment policies that are based on the principles of economics and each firm's obligation to assume its own responsibility.

#### To Enrich The Basic Research System

Yumikura: The biggest trouble that we are facing now is that we do not have enough financial resource for basic research. The research requires an enormous amount of money and a long lead-time, so it would not go against the trend of deregulation to have the government support it financially. We are not asking to protect the industry, but merely asking for basic support.

Also, as for the problem of anti-monopoly law, in this period when the economy is moving fast, I would like to see the government adopt the anti-monopoly law that suits the changes in the economy.

Another point is whether it is a good thing to liberalize everything, going along with the trend of deregulation. For instance, in the United States the airline fare is liberalized; there is a fierce competition going on, and even

things such as fare discount for passengers with less luggage are being done. But if this kind of thing is pushed too far, people may become aggressive and human relations may be all dried up. In such a small country as Japan, I am not sure we should let ourselves be so aggressive in free competition. I think it might be necessary to come up with Japanese-style deregulation.

#### Reconsider the Evaluation System of Research Development

Watanabe: As all of you have mentioned, I also think that the government's more serious commitment is needed. When we talk about strengthening basic research, there are two aspects to be considered: to ask the government to allocate more money for basic research, or to reevaluate the public research projects to put more emphasis on it. At present, the result of research and development is evaluated from the criteria of what tangible object came from the research and what it can do. Since basic research cannot produce things that satisfy such criteria easily, attention tends to be focused on application research. We must reconsider this kind of attitude of evaluation.

In the past, when it was necessary to explain to the Diet members or the Ministry of Finance, we would say, taking an example of building a house, that the result of research and development is like building the entrance, the gate, planting trees in the garden and painting the house neatly. But from now on, we will have to say how to build a good foundation or good pillars is the most important and ask the government to change the direction of support toward the research dedicated to these things; then, even without increasing the budget so much, the money can be used effectively.

There is another problem of cooperation between the industry and the academic fields. We are well prepared to cooperate with the academic side, if they are willing to tackle basic research seriously. Right now, the reaction from the universities' side is so slow that it is irritating us.

Kawai: When we say universities, we tend to think that they are mainly engaged in basic research, but is it not true these days?

Watanabe: This may not be a good way to put it, but there are people who work according to a logic that basic research is useless, therefore, useless research is basic research. (Laughter) I hope there will be basic research that can lead to a big development even if it may take time.

Yumikura: We certainly don't want people to think the industry and the academic field are the same.

Kawai: The relationship between the industry and universities was mentioned. In the relationship with the government, probably there will be more cooperation in the future in places like the Basic Technology Research Promotion Center. In the Center, I hear that they are going to make an evaluation system.

Watanabe: I hope the system will evaluate not according to the concept that a house should be built to look beautiful outside, but based on the objective of making a good foundation and pillars.

### Japanese Firms Are Not Strong

Miyauchi: A while ago, Mr Fujisaki mentioned that it is desirable to adopt environmental adjustment policies that are based on the principles of economics and each firm's obligation to assume responsibility. I agree with him, but to do that, a firm must be strong. Yet, when it comes to the question of whether Japanese firms are strong, as far as the financial aspect is concerned, they are not so strong. Compared with American firms, we are pretty behind.

As a background to that, the corporate income tax systems in Japan and the United States are very different. Japan's corporate tax burden is extremely high compared with that of the United States. And this tendency is being strengthened now. If this kind of thing continues, even though it is desirable for each firm to assume its own responsibility, firms will lose strength. If that happens, the conventional policies will have to be taken again. In this sense, we should also reevaluate the corporate tax system.

Another point is that the cooperation between the government and the private sector that was successful in the past will not necessarily work out well in the future. Therefore, unless we reform the organizational structure of bureaucracy or the guidance principles thoroughly, the Japanese industry will not be able to avoid being called unusual in the new international community. That should not be permitted; therefore, the reevaluation of industrial policies, including the way the administration should behave, is where my interest lies.

Kawai: In addition to the tax problem, profit ratio is also very low in Japanese firms. American firms have very high profit ratio.

Mochizuki: In banks, too, our net profit ratio is about 50 percent of that of banks in the United States.

Kawai: So we are making profit by selling a lot?

Mochizuki: There is a certain aspect that suggests that, but from now on, it will become very important to strengthen qualitative profitability.

Kawai: Even though the profit ratio is low, taxes are high. Therefore, the profit after tax in comparison with the United States is even less.

Fujisaki: The Japanese economy is probably an overly competitive type.

Mochizuki: Ironically speaking, maybe in the United States the firms which are not making much profit just give up the business. (Laughter)

Kawai: The trade friction is the biggest problem we are facing now, but the first necessary step to take is probably to reevaluate the tax system as a basic industrial policy. As for the problem of adopting large-scale indirect taxation system, we need to begin by discussing whether the present tax system is fair and appropriate. If the tax was to be increased by adding the indirect taxes to the current system, we cannot keep up with that.

Yumikura: As our president Miyazaki always says, "we will pay more tax after making more profits." At any rate, if the government tries to take more to supplement its own deficit after having taken so much already, it will only remove the seeds of the future tax revenue.

Kawai: Even the useful life of facilities is longer in Japan than in the United States or Europe. I want to have this fact reevaluated based on the current economic conditions.

Fujisaki: Furthermore, in terms of promotion of technological innovations, the investment tax credit and the accelerated cost recovery system will be needed, too.

Kawai: Unless these basics are straightened out, no good result can be expected from self-reliance or by activating the private sector. We have to have chains and fetters removed first.

#### To Clarify the Roles of the Government and the Private Sector

Mochizuki: The future industrial policies should move, as mentioned many times before, toward the direction of the environmental adjustment policies. The government should be thought of as the supporter of firms, counting on the willingness of firms.

In short, it is important to clarify the new assignment of roles between the government and private sectors. First thing to do is for the government to proceed with the deregulation, while counting on the private sector's creativity and inventiveness.

Another thing is to strengthen the function of the government in the areas where the private sector cannot easily embark--such as the basic research field, or the industrial infra-structure. If we assign the roles on these two dimensions to the government and the private sector, that will naturally determine the nature of the policies.

The problems of anti-monopoly law and deregulation fall into the category of the first dimension above, and the basic research and development, such as rebuilding ports and roads for the purpose of the social development, fall into the latter. It is important to keep up with this at an appropriate pace without regression.

In Japan, there is the national characteristic that both government and the private sector do not regress, they keep doing one thing patiently once they commit themselves to it. In the U.S. economy, the amplitude is so big, going from a tremendous growth ratio to a drastic deficit. That is the American style vitality. But in Japan, once we start something, we don't regress but keep accumulating until, some day, it bears fruit. This, I think, is the Japanese style vitality. Utilizing this characteristic in making policies will be necessary.

Kawai: How about the energy policy?

Mochizuki: For now, mostly it falls into the category of deregulation. In the staff meeting of the FEO, there was a talk that we should liberalize the energy policy and allow some freedom, including the problem of the import of petroleum products.

Energy Policy From a Long-Term Perspective

Fujisaki: In short, even though after the oil crisis the phrase "a country with poor natural resources" is not heard so often now, the energy problem is not solved; we should reevaluate everything from a long-term perspective--how much nuclear energy should be generated, or how coal and petroleum should be considered in the energy policy, etc.

Mochizuki: As you said, Japan is a country with poor natural resources, so we cannot ignore the problem of how the government should secure energies. However, in this age of deregulation, fitting that fact into policies of industry theories will require some effort. We cannot say that we don't have to store petroleum. The same thing can be said for rare metals.

Fujisaki: I think we should hoard it up to a certain extent, too. The United States is storing a lot from the perspective of preserving security.

Kawai: Strategically.

Mochizuki: I don't think there are many people who deny completely the necessity of hoarding. But the problem is that there are different opinions as to how much the private sector would have to bear the burden of hoarding. Especially right now, due to the oil glut, the refining is not sufficiently done; at the time like this, this becomes a pretty difficult problem.

Kawai: Thank you all very much for talking for such a long time.

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ECONOMIC

SINO-JAPANESE ECONOMIC LAWS SYMPOSIUM OPENS IN GINGDAO

SK230729 Jinan Shandong Provincial Service in Mandarin 2300 GMT 22 Jul 85

[Text] The symposium on the economic laws of China and Japan opened in Gingdao on 22 July. Attending the opening ceremony were Zhang Jingfu, State Councilor; Zou Yu, Minister of Justice; Zhu Jianming, Vice Minister of Justice; Liu Peng and Ma Lianli, Vice Governors of Shandong Province; (Chuan Dao Wu Xuan), head of the Japanese delegation; and (Yuan Hou Shan Zhi), Deputy Director of the Japanese side to the symposium on the economic laws of China and Japan.

During the symposium, in order to further promote the economic and technical cooperation and to develop the friendship between our country and Japan, more than 200 specialists, lawyers, and enterprisers from the two countries, after introducing their local economic laws, will discuss matters on economic laws of which both sides are interested.

On the basis of discussing legal issues, the economic figures of the two countries will freely talk about matters on economic and technical cooperation of which both sides are interested in order to establish future cooperative contacts.

Comrade Zhang Jingfu spoke at the opening ceremony. He said: China's policy of enlivening the domestic economy and opening to the outside world is a fundamental principle which was raised in light of the practice in building socialism over the past 30-odd years and the summing-ups of positive and negative experiences and lessons. This is also the basic national policy which will be carried out for a long time to come.

Comrade Zhang Jingfu introduced the favorable conditions for the foreign investors, such as the stable political situation of China, the enormous market, the stable development of the national income, the constant improvement of the socialist legal system, and the respect of faith and contracts. He also hoped that the competitiveness of Japanese investors will become even stronger through the whole process of economic and technical exchanges.

At the opening ceremony, congratulatory messages from Abe, Foreign Minister of Japan, and Nakae Yosuke, Japanese Ambassador to China, were read out.

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